Exhibit A

Company Name: Smithfield Foods
Company Ticker: SFD US
Date: 2009-06-16
Event Description: Q4 2009 Earnings Call

Market Cap: N.A.
Current PX: N.A.
YTD Change($): N.A.
YTD Change(%): N.A.

Bloomberg Estimates - EPS
Current Quarter: 0.823
Current Year: 2.636
Bloomberg Estimates - Sales
Current Quarter: 3587.667
Current Year: 13695.750

Q4 2009 Earnings Call

Company Participants

- Keira Ullrich, Investor Relations
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Other Participants

- Kenneth Goldman
- Christine McCracken
- Kenneth Zaslow
- Farha Aslam
- Timothy Ramey
- Christina McGlone

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Smithfield Foods Fourth Quarter Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session. Instructions will be given to you at that time. [Operator Instructions]. And as a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Keira Ullrich. Please go ahead.

Keira Ullrich, Investor Relations

Good morning. Welcome to the conference call to discuss Smithfield Foods' fourth quarter and full year fiscal 2009 results. We would like to caution you that in today's call, there may be forward-looking statements within the meaning of Federal Securities laws. In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2008. You can access the 10-K and our press release on our website at www.smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; Bo Manly, Chief Financial Officer; and Dick Poulson, Executive Vice President. This is Keira Ullrich, Director of Investor Relations.

In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we request that you ask only one question and one follow-up if necessary.

Larry Pope will begin our call this morning with a review of operations. Larry?

C. Larry Pope, President and Chief Executive Officer

Thank you, Keira. And welcome to the call of our fourth quarter and year-end numbers for Smithfield Foods. I hope you will take note that Keira Ullrich is just now responsible for our Investor Relations activities. Jerry Hostetter is no

longer with the company. And Keira has taken that over as the Director, and so I hope you'll pass on your comments to Keira. I think she's doing an excellent job.

Now, to the numbers. We are reporting a loss this morning -- income or loss really from continuing operations for the quarter is 78.8 million or $0.55 a share compared with 1.8 million last year or $0.01 a share. For the year, that's $242.8 million loss, or $1.72, compared with $139.2 million profit or $1.04 in profit for last year.

Clearly, this has been a very, very tough last six months and year, and the company is reporting its first loss in over 30 years, and certainly that is troubling to this management team. We fully expected this. We telegraphed this to you as early as the end of our second quarter that we knew these grain costs were going to be embedded in the inventory levels of the hogs. And as we saw forward into the live stock markets on the future's market, we were pretty darn sure that we were going to have a tough third quarter and a tough fourth quarter, and that's exactly what happened.

I can summarize the quarter and I can summarize the year very, very succinctly in saying that we have a hog production issue. The part of the business that has carried this organization for many years has flipped on its head as a result of sharply increased raising cost last year that we've talked about many, many times. And those are continuing into the fourth quarter just as we had told you they would be. And that raised our cost on a comparable basis from $54 a hundredweight to $63 a hundredweight. We had even begun to see some of this even in the fourth quarter of last year.

When you do that math, that works out to be, with a little bit of pickup we got on the live hog market, that works out to be about $8 a hundredweight differential. And so our losses are $20 a head worse than they were last year this time, and that's $90 million. And if you look at the information we provided in the write-up, the press release, you'll see that we attribute $88 million of that to increased grain cost. So it doesn't take a rocket scientist to figure out that the issue is grain cost. And that has got to be resolved one of two ways, either grain's got to moderate or the live hog market has got to move up and be transferred through in terms of higher meat prices to consumers.

I have made some comments in the earnings release about my concerns around this -- the ethanol policy, which in my mind is a hidden tax on this industry and on the American consumer that's not so easily being played out and is certainly not being announced. And it has been devastating to this industry, it's actually been devastating to the ethanol industry. And as oil prices move back up from those lows we saw a few months ago, they move upwards, I mean I think the continuation of this ethanol policy and even the mandate towards increased blending rates could continue to have some – create pressures for this business and everyone in the livestock business and everyone that uses grains in their manufacturing process. It is an issue.

In terms of the year-to-date numbers, where you see the continuing huge losses on the hog production side, once again, over $500 million of that is related to increased grain cost, and so it is very much a function of that. In addition, we've got an oversupply of livestock. I think many have written about that. We announced a 5% reduction last February a year ago. Last summer, we quietly increased that amount to 10%. And as of January, we had reduced our herds by over 100,000 sows and two million hogs on an annual basis. I am reporting to you this morning that we have initiated a third round of sow herd reductions, and we will be reducing our herds another 3% effective immediately; in fact, we started the reduction yesterday. It will take us about eight weeks to effect that reduction. It is largely with hogs that are supplied to an outside -- to one of our competitors, and we will be making those reductions immediately.

So we -- from my standpoint, we're doing our part in this industry to continue to right size the business from a production standpoint to match the demand. And we'll have to see how the industry goes from there from its standpoint.

So that's sort of the summary of it. Beyond the hog production, our International business is a bit of a mixed bag. Romanian and Poland business, as well as Mexico, are very strong, very profitable. We did have some currency losses that went against us in Romania and Poland, and even Mexico, but still those businesses are very solid, even in the face of sharply higher live hog prices. Those businesses are doing very well, and I'm very satisfied some of the things we put in place a number of years ago in Poland and now in Romania are starting to bear nice fruit. And I am highly encouraged by what's going on in central Europe and in Mexico.

Our Groupe Smithfield merger that was completed at the end of the calendar year is now moving forward. We have a lot of initiatives in place there. Smithfield is the 37% shareholder. Unfortunately, it is in the middle of a Western

European recession that is adversely affecting that business pretty significantly, as we rely upon largely packaged meats and fairly high priced branded packaged meats and those markets have been hit pretty hard with migration away from the brands. And so we are seeing some deterioration on that side.

Before I go to the meat business, I'll talk about the Other category, which is our Butterball business. Clearly that's been impacted by these grain prices. Turkey is almost a direct correlation there. And finally, we have liquidated the cattle that we had left over from the beef operations. We have some somewhat significant losses as those have just run out, and the cattle markets have gone against us in this process. That's what's driving the Other category.

Now to the meat business. The meat business is nothing short of excellent. I could not be more pleased with the way that business is being run. The management change we made last May 1 with George Richter and the Operating Presidents, as well as the changes we made with moving Joe Luter IV to an Executive Vice President, and Bo Manly in as Chief Financial Officer have been just stupendous. I could not be happier with the people and their positions, and the jobs they are doing.

The meat business is performing very, very well. Fresh pork of late has been weak. Certainly as we move into the first quarter, the swine flu or A (H1N1) as we all know it is, had little effect on the end of last fiscal year and it had a little bit of an impact as we came into the beginning of this quarter. If you read the earnings release, you'll see that in large part, that's behind us from a demand standpoint, it's not behind us from a pricing and export standpoint.

But fresh pork had a solid year, not terrific. It had a weak end of the year earnings. The processed meats, on the other side, had another record year. Our packaged meats business is doing extremely well. As I've mentioned to you for now for more than two years, we had a plan in place to increase our margins on packaged meats to $0.10 a pound on a pre-tax basis. I can report to you today that we have achieved that goal. And in the most recent quarter, we surpassed that goal. And so that part of the business is going extremely well.

As you know, in February, we announced the -- a restructuring of our Pork Group, not in reaction to the recession that was out there and not in reaction to any pressure from our lending institutions. But rather it's the result of the many acquisitions we have done and to put this business in a position where it can be highly competitive, and that we could utilize our manufacturing facilities to the fullest extent.

We have a plan to close six plants as of today. One of those plants has been closed as of this Friday, a second plant will be closed as of next Friday, a third plant will be closed, and by the middle of July, two more plants will be closed. So five of the six plants will have been shuttered by the middle of July. And we have one plant in Smithfield, Virginia that we are relocating between two major facilities. And we have to do some construction work, so we will be migrating from one to the other, but it will not be completely shuttered until just after the first of the year. So it will be the sixth plant and the last plant.

But for all intents and purposes, the vast majority of the restructuring that we have been -- we laid out in February will have been completed this summer, and early this summer. I am fully confident that we will accomplish what we said we would accomplish on the restructuring. We announced that we thought we would pick up $55 million even after paying $27 million in increased inefficiency cost and relocation cost, we fully expect that to be true.

We think we're getting some of those benefits already, we will be spending a little over $50 million, a lot of it at Smithfield, Virginia to fix the hog coolers and put on a shipping dock. And then we expect as we move forward, we will start to see a run rate of $125 million a year bottom line impact, with about two-thirds of that going to the packaged meats business and the remaining one third showing up on the fresh meat side of the business.

These are fully accomplishable, I think we are well on our way to doing it there, I see nothing in the future that's going to prevent that. The processed meats business continues to be very well run and our fresh meat business continues to get much, much better. We have made a number of changes in our fresh meat business. We – as I think I mentioned on a prior call, we brought in somebody from -- an industry expert about a year ago to give us some ideas – walk through our plants and give us a list of ideas. We have implemented many of those ideas and I expect that we will have more to implement.

However, those benefits are already a significant – to the tune of $1.00 a head already, in terms of what we've already implemented. It is a -- the meat business is extremely bright, the things that we're doing, I think, put us in a position to be a fierce competitor to not only weather this recessionary period from a meat standpoint, but actually excel.

Clearly, the lower priced raw material has helped that business. However, as we look at the business, how we look at our relationship between the selling price and where our costs line up, we see a lot of the cost and the benefits are being driven out of below -- what we call, below the line. And so we believe that the margins we're achieving in the packaged meats business are fully sustainable.

We may see some margin pressure or squeezing if raw material moves up sharply, which it probably has to do if these grain prices continue at these kinds of levels, it will have to happen. But our basic structure has been radically improved and will improve even more by the remainder of this calendar year. And by then, I think this thing will be fully behind us.

Our retail business is very strong, and the business is up, we're seeing a sort of a flat level to slightly down on our food service business, but the margins are very solid. And some of this, we had designed. So that part of the business, I can't say anything that I'm not pleased about.

I wanted to take -- I want to make a few comments in terms of the overall management strategy and the proactiveness in terms of how we've looked at this business and what we've done. Before I do that, I think I'll turn it over to Mr. Manly and let him give you the financial update and then I'll speak to that, as well as a look forward, after Bo's given his comments. Bo?

Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Thank you, Larry, good morning, everyone. First, a couple of housekeeping items. Fiscal 2009 that we just finished was a 53-week year. Second, the results of Campofrio and Groupe Smithfield will now be presented as a combined entity in the International segment. Prior year results for the two companies will be combined for year-over-year comparative purposes.

Fiscal 2009 can be described by the familiar Charles Dickens quote "It was the best of times and it was the worst of times". Smithfield Foods had the first annual loss in 30 years. We reported a loss from continuing operations of 243 million for the full-year and $79 million loss for the fourth quarter. This translates to per share loss of $1.72 from continuing operations for the year and a loss of $0.55 for Q4.

Very poor results from swine production continued to dominate the company's income statement. The impact of the recession began to take its toll on the demand for pork during the second half of the fiscal year. The extent and duration of the decrease in demand is not certain, while the ethanol, crude oil linked corn prices puts pressure on raising costs.

It was the best of times. Packaged meats had record setting results in both total operating profit and margin per pound. We improved packaged meats profits by approximately $100 million year-over-year. Margins averaged better than $0.12 per pound.

It was the best of times. Restructuring of the Pork segment is well underway with benefits building through fiscal 2010 with a net EBT improvement of 55 million this year, and increasing to an annual EBT improvement of 125 million by fiscal 2011. Pork results reflect 88 million in restructuring charges absorbed in the third quarter of fiscal 2009. Restructuring charges declined to 27 million in 2010 and 0 by 2011.

It was the best of times. Our international meat processing and swine production enterprises, with the exception of Campofrio Groupe Smithfield, have shown big improvements.

It was the best of times. Liquidity was over 1.1 billion at year-end. All covenants are being met. Despite record losses, the company generated cash flow from operations of $269 million. We reduced working capital by 679 million and total debt by over 890 million.

It was the best of times. We've shed non-core assets and continue to look for further opportunities. Capital expenditures continued to be held at bare bones maintenance levels.

We are living in an interesting and rapidly changing era, as Larry had emphasized. We have been extremely proactive in addressing operational issues, corporate structure and overhead, shrinking CapEx, focusing on return on invested capital, addressing covenant issues in a timely manner, deleveraging the balance sheet and reducing balance sheet risk.

At this moment, let me address my most frequently asked questions. First, we are in covenant compliance through the fourth quarter and project continued compliance in the current quarter and beyond. We firmly believe we will adequately address all covenant issues in the foreseeable future.

Secondly, we increased liquidity during the quarter by over $100 million. We ended the fourth quarter, as I said, with over 1.1 billion in available borrowing capacity under our revolving credit agreements.

Third, in our last earnings call, we described refinancing discussions with our lenders. At the present time, we are unable to provide details, but I would describe the dialogue as ongoing and fruitful. We have demonstrated over the past year, that we have behaved fiscally conservative and financially proactive. We continue to pledge to you that we will continue to be financially proactive.

And as I have indicated previously, all financial options remain available to us.

In addition, we have demonstrated a proactive operational focus in the past year with three significant structural changes. The sale of the Beef Group, reduction of 10% of our U.S. sow base with more to come, and the Pork segment restructuring project.

The Beef Group sale generated needed cash and created greater focus on our core business, and reduced our exposure to the commodity risks associated with cattle feeding. The decrease in sow base will help balance U.S. supply and demand, exit less efficient operations and reduce exposure to commodity price risk.

The Pork segment restructuring will produce 55 million EBT improvement in fiscal 2010 net of expenses, and 125 million EBT improvement in fiscal 2011. The majority of EBT improvement will be derived from overhead saving -- overhead and SG&A savings in packaged meats. The EPS impact should be approximately $0.50 per share.

As Larry indicated, we believe A (H1N1) flu virus is behind us. It may, however, have been the tipping point in worldwide pork demand. At the onset of the flu crisis in very late April, we were optimistically headed into a period of higher meat prices due to smaller seasonal pork supplies. The news of the flu hit the airwaves then. Pork prices instantaneously fell and demand shifted downward. While the psychology surrounding flu is past, recessionary pressures worldwide persist. Lower price levels are needed to clear the market despite shrinking supplies, the classic definition of demand shift. Further reductions in supply are likely necessary to put meat prices higher, and we are doing our part.

Our export demand held through April. We have exported more pounds of meat, albeit at marginally lower prices, price levels, than a year ago. When flu hit, both China and Russia closed their borders or delisted previously approved plants. This situation persists today, not because of flu or food safety issues, but more so to prop up our domestic pork prices and protect their domestic producers. This environment was very costly to Smithfield and other U.S. producers.

Pork segment reflects record profits and packaged meats, offset by deteriorating fresh meat performance, particularly in the fourth quarter, and 88 million in restructuring charges in the third quarter.

The Pork segment operating profits declined 54 million for the year to 395 million, after absorbing 88 million in restructuring charges, and declined 28 million to 111 million for the fourth quarter compared to the same period a year ago. Packaged meats operating profits improved approximately $100 million year-over-year. The improvement came principally from reduced SG&A and better sales margins.

International operating profits for fiscal 2009 were 35 million. Operating profits declined 42 million year-over-year mainly due to sharp decline in Campofrio Groupe Smithfield earnings. This was particularly true in the fourth quarter

due to the impact of recessionary pressures on Western European consumers against the heavily branded packaged meats portfolio of the new Campofrio food group. Our other international enterprises showed strong operating improvements. Our Polish and Romanian and Mexican meat operations were profitable in the fourth quarter.

The Hog Production segment remains the company's achilles heel. The results for the full-year climbed from a loss of 98 million in fiscal 2008 to an unprecedented $521 million loss in 2009. Hog Production losses increased 42 million to a loss of 171 million in Q4.

International swine production, while still showing negative results, cut losses significantly in the second half of the fiscal year, with higher European meat prices than the U.S. Lower grain prices eased their cost of production as well.

In the fourth quarter, the impact of hedges and other year-end adjustments caused Hog Production costs to rise slightly. In our last conference call, you may recall that we anticipated a slight decrease in cost from Q3 to Q4. This did not happen due to the adjustments mentioned above. The encouraging news is the company's high-priced grain purchase commitments are in the past. Pigs are eating cheaper corn every day, lowering their breakevens. Production costs are coming down, costs are projected to average below $0.60 per hundredweight in this first fiscal quarter and average in the low to mid-50s for the second half of the fiscal year if grain prices remain in their current range.

The Other segment results for the year and the quarter showed significant losses in Butterball Turkey and our cattle feeding activities, subsequent to the Beef Group sale. Cattle feeding lost 16 million in Q4 and 29 million for the full year. A substantial amount of our cattle inventories were sold in the fourth quarter. We ended the fiscal year with 44,000 head of cattle in inventory, down from several hundred thousand cattle at the end of last December. These remaining head will be sold in the first quarter of fiscal 2010. The company will have no further exposure to live cattle commodity risks.

Butterball continues to raise prices to cover higher raising costs. After experiencing substantial losses compared to a year ago, Turkey operations significantly cut their losses in the fourth quarter, as the industry cut production and tried to find the appropriate supply/demand balance. Turkey performance is anticipated to return to profitability as we move into the third quarter of fiscal 2010.

The changes in Corporate segment results for the fourth quarter and full year fiscal 2009 compared to the same periods in 2008 were principally caused by 15 million in incremental currency losses in Q4 and 30 million in incremental currency losses for the full year. SG&A was flat for Q4 and declined 15 million for the full year, mainly due to decreased compensation expenses more than offsetting currency losses.

SG&A expense totaled 798 million for fiscal 2009. We project SG&A for fiscal 2010 will be approximately $200 million per quarter, assuming a return to normal levels of compensation during the coming year.

Smithfield experienced extremely wide swings in the past year in the value of the Mexican peso, Polish zloty and Romanian lei. These currencies had risen steadily at a steady pace over the past several years, but came crashing down in the last half of the past fiscal year, generating large swings in FX in many of these overseas enterprises.

Interest expense for the fourth quarter was 55 million, up 13 million from the same quarter a year ago, and up 24 million for the full fiscal year compared to 2008. Despite a large reduction of debt over the course of the year, interest expense increased due to higher rates on our revolvers subsequent to the covenant amendments, amortization of fees associated with the two amendments this year as well as two debt deals. Finally, interest expense allocated to the Beef Group was moved out of 2008 interest expense into discontinued operations, further skewing year-over-year comparisons.

Full year interest expense for fiscal 2009 was 209 million. We expect interest expense in 2010 to be between 55 and $60 million per quarter. The full year fiscal 2009 effective tax rate was 34.3%. The effective tax rate for fiscal 2009 was 34.3% as well, and the projected tax rate for fiscal 2010 is between 34 and 35%.

The loss from continuing operations for the full year includes a pre-tax hedging loss of $9 million. The operating loss in the fourth quarter includes a pre-tax hedging loss of 38 million. For the fourth quarter of last -- fourth quarter of last year had 17 million of unrealized mark-to-market gains that flowed through the P&L.

Turning to the balance sheet for a moment. We reduced debt, capital leases, and notes payable by 895 million since the beginning of the fiscal year, dropping total debt from 3.9 million to just less than 3 billion at the end of fiscal year. This brought the debt-to-capitalization ratio down from 56% to 54% in Q4. We reiterate our goal of achieving a debt-to-cap ratio of less than 50% over the next 18 months. These reductions in overall debt levels reflect management's continued effort to improve the balance sheet through asset sales, aggressively managing capital expenditures, issuing equity, and early repayment of long-term debt. Working capital requirements were reduced by 679 million over the course of the past fiscal year as well.

Full year depreciation in fiscal 2009 was 269 million. We anticipate depreciation in fiscal 2010 will be 253 million due to lower CapEx spending in the last fiscal year. The company's efforts to put constraints on capital spending since January of 2008 have had a significant impact on cash flow. For the fiscal year just ended, capital expenditures totaled 175 million.

This is a bare bones maintenance level and compares to full year depreciation of 269 million and an average capital spending of over 460 million in each of the two prior years. Capital expenditures will remain under pressure until profitability returns to normal levels. Capital expenditures for fiscal 2009 is projected to be 195 million to include 45 million in pork restructuring CapEx.

In summary, this past year was the most difficult and complex year in Smithfield's history. It was the worst of times and the best of times. We had positive cash flow despite the record losses. We continued to hit record results in packaged meats. We slashed CapEx and are maintaining spending discipline, we sold non-core assets to pay down debt, and look for additional opportunities for non-core divestitures. We decreased debt by almost 900 million and are committed to continued balance sheet improvements.

We maintained robust liquidity, ending the year at over 1.1 billion in available credit lines. We secured covenant amendments on a timely basis. We initiated a pork restructuring plan that will enhance EBT by 125 million, and A (H1N1) flu is over.

However, anything that breathed lost money. The best news of all is that raising costs are declining, the broader industry and banking sector appear poised to finally begin a significant herd reduction to reduce supplies and raise prices. We are expecting dramatic improvement in performance as we move into the new fiscal year, and we continue to improve the balance sheet and will be proactive in addressing all financial issues before any matter becomes critical.

Thank you for your attention. And I'll now turn it back to Mr. Pope. Larry?

C. Larry Pope, President and Chief Executive Officer

Thank you, Bo. You can see that Bo was -- gave you a fairly complete review of both the financial and some of the business, reiterating some of the things that I have said. I want to point out that I think that we have reached an inflection point. I think that many producers last year were looking at the futures markets, had bought some corn maybe at some advantageous prices, had not gone through the hedge, had looked at the summer and saw the possibility of substantially increased live hog prices, and this thing would be over.

I think the bloom is off that rose. The H1N1 virus certainly had dramatic impact on the live hog market. The market continues to be depressed today. I believe that these summer futures are now at the lowest levels on record, and so farmers now see that cutbacks I believe, are the answer to their troubles, and that we can get back to profitability, but we probably cannot without solving this oversupply issue that's out there. I think that has been a change, and I think Bo pointed out to you that the bankers feel the same way.

I see that as -- in spite of the negatives that are going on and the fact that we are continuing to incur significant losses on the raising side, which will flow into the first quarter and will likely flow into the second quarter. We will continue to experience losses I think in live hog production through the second quarter of this fiscal year, and maybe the third. I thought as well some of the reductions that we had announced would have had an effect on this.

The export markets continue to be, in spite of what you may be reading and hearing, with the exception of China, which is closed to U.S. exports because of the swine flu impact, the export markets are good. And the other markets are open, we are actively selling them, including Russia. So that is the very positive out there. Certainly, China is a big market in terms of volume, it's our single largest, but not just a touch bigger than the others, from a dollar standpoint, it's not the largest market for us. And so the export markets are still very positive. And I think they will a -- U.S. pork is very cheap relative to other pork around the world. And so I think we will have a competitive advantage for that going forward.

Freezer stocks are low, which means that there's not a lot of pressure from the freezer inventories on the market, and that should help this business. And from my standpoint, I think this coming year is going to be certainly better than last year. That's not saying much. That's like saying you can't fall out of a basement window.

Certainly, this was a horrible year. It felt like we had one hurdle after the next to jump. And we continue, I believe, from a management standpoint, I give my team very high marks for dealing with each of the issues as they came at us, including the accusations that we were the source for ground zero, for the "swine flu". We certainly dispelled that rumor completely on our own by going out and testing at the farm and having it genetically sequenced under the supervision of the Mexican Government and the U.S. authorities, and completely dispelled any of the claims that we were the people responsible. We have the highest level of biosecurity on our farms. I can tell you that those farms in Mexico are extremely well protected, and we were very comfortable we were okay from that standpoint.

So as each hurdle has been thrown up to this management team, I give the team very high marks for having dealt with them. I look back and debate what should we have done, had we known all the future, I guess we wouldn't have hedged the corn last summer. If I had perfect knowledge, we wouldn't have done that, it was clearly the thing to do at that point in time. And probably given the same situation, we'd do it again.

As we look forward, it looks like grain's not going to go to those stratospheric levels this coming year. It is elevated. We are, as you all know that follow the markets, we are over $4.00 on the corn. So we still have fairly high priced corn in spite of the fact that everybody is saying it's not seven. We have the pressures from our government that wants to convert more than one third of the corn crop into ethanol, approaching half of all the corn, which is, could just be overwhelmingly devastating to the livestock industry and put the whole protein industry in complete jeopardy until prices adjust. And prices will adjust.

We will simply reduce supply, and this will adjust. That part, I am sure of. Supply and demand work in this business. There have been some false hopes out there with what people have seen forward in the futures market, and I think that hope is over. And I think the corrections are coming. The management team is on the game. Bo pointed out to you that from a financing standpoint, we've stayed ahead of the wave. I think that we've got very strong liquidity today. We have extremely good relationships with our lenders out there. They've been very cooperative with us. We amended covenants well in advance of any issues.

I will tell you today that we as well are talking to all the appropriate people to make sure that nothing slips up on us and gets us that we haven't thought through, with Bo and his team are doing an excellent job from that standpoint.

And I think that, from a financing standpoint, we want to make sure we have the financial resources and the balance sheet to weather any storm. Anticipate that we would have the balance sheet even if the storm got worse, we would still have the balance sheet to weather through that.

We will take the steps that are necessary to ensure this organization is financially strong. We are building it through the restructuring to be one powerhouse that I could be extremely proud of. Many times I think there's been said the industry, a number of years ago, that Smithfield was the sleeping giant. And if the sleeping giant ever awakened, there would be issues that the other -- the rest of the industry would have to deal with. I will tell you that the giant is awake.

The acquisitions we have made have turned out to be -- almost all of them to be extremely good acquisitions, including the Farmland acquisition some five or six years ago. The Armour Eckrich acquisition, so many in the industry laughed about, from Smithfield, is one of our very best acquisitions that we've done. And it is delivering very solid returns, as is the Farmland acquisition, as is the Smithfield and the John Morrell. The consolidations that we've put together are just

going extremely well. And I know I'm being overly bullish with that and touting it. I am just so very pleased with what's happening here.

Anyway, I think it's going to be a troubling first quarter here with hog production. I think the rest of the business is going to do well. I think it's going to continue. You see the news in the trade journals, so you know what's happening. We are cutting back even farther. We are going to continue to be in a leadership position from here. We're going to try to lead this industry, or that segment of the industry, back to profitability. We're going to continue to proactively look at hog production and do what we need to do from our standpoint to manage our P&L and hopefully position, not jeopardize anything on a long-term, and put us in the right position from a hog production side. And I'm confident that we're making good decisions in that side of the business, and I'm confident in that management team.

With that being said, Keira, I guess we'll open it up for questions.

Keira Ullrich, Investor Relations

Operator, please open the line for questions.

Q&A

Operator

Thank you. [Operator Instructions]. Our first question will come from the line of Ken Goldman with JPMorgan. Please go ahead.

<Q - Kenneth Goldman>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Morning, Ken.

<Q - Kenneth Goldman>: One question for Bo and one for Larry, if I can. Bo, how aggressive do you want and expect to be with any balance sheet restructuring? I guess I'm asking, is it conceivable that in a couple of months we'll see a balance sheet that has new revolvers and no maturities on debt until maybe 2013 or so?

<A - Robert Manly, IV>: Ken, I really can't be any more specific than what we have been. It -- I'll leave it at that.

<Q - Kenneth Goldman>: Okay. Larry, can we talk about Cofco for a second? And maybe you mentioned this and I may have missed it, but they're obviously influential in China and they obviously have a vested interest in your stock price. Why are they not putting pressure on the Chinese government to reinstate imports? Or if they are, why are they not being more effective in doing so?

<A - C. Larry Pope, President and Chief Executive Officer>: Look, Cofco is certainly, it's an independent organization. I have sought out their help in helping to open those markets back up, Ken. I actually -- and they have been supportive of that. I don't know the politics inside the Chinese government. And they got, the Chinese government's got their own issues in terms of their recession and trying to protect their market, their livestock markets. So I'm not sure that they're as interested in opening these markets back up. That's my -- that's just me -- my opinion. I don't have any better -- much better information than you have on that. But Cofco has indicated that they are working with the government and talking to them. And that's about as much as I know. And I am sorry.

<Q - Kenneth Goldman>: Okay; thanks very much.

<A - C. Larry Pope, President and Chief Executive Officer>: Uh huh.

Operator

Our next question comes from line of Christine McCracken from Cleveland Research. Please go ahead.

<**Q - Christine McCracken**>: Good morning.

<**A - C. Larry Pope, President and Chief Executive Officer**>: Good morning, Christine.

<**Q - Christine McCracken**>: Just in terms of these cuts in your sow, I heard the additional 3% that you announced today. I guess I'm wondering, can you give us some idea, this is now 13% of your sow base, can you give us some idea of how many pigs you're actually raising? It seems that the productivity gains that you're getting now that you've cut your worst sows are actually making up for some of the total productive capacity that you've taken out.

<**A - C. Larry Pope, President and Chief Executive Officer**>: Christine, we're not going to see, we are seeing reductions in the number of pigs coming to our plants today, from our farms. We're already seeing that. Is it going -- I think with this clearly – what we're cutting back now is going to have another impact. I think we're going to be in the two to two -- between two and 2.5 million, giving a little bit of time for this thing to come all the way through.

<**Q - Christine McCracken**>: Okay. How much – how many, how large a cut do you think the industry needs to make at this point on a collective basis to get to -- back to productivity?

<**A - C. Larry Pope, President and Chief Executive Officer**>: Christine, everybody has a number that they feel like, I'm not sure anyone has a good handle. What I've struggled with -- let me give you and see if this helps. What I struggle with is the fact that so much of this product is going overseas, and that these export markets can be very volatile.

And when you've got 20% of the business going overseas and you're killing 420,000 hogs a day, that certainly means that something around 80 or 85,000 of those hogs are going out of this country in the form of meat to somebody else. And so whenever those markets shut down, as China is right now, that has an impact back to the U.S. I think we solidly need -- that's my prediction, that we solidly need a 10% cutback. I think that would make the industry very profitable and that's probably the highest that anyone is talking about.

And that would put us in a position, because I think what is going to happen, if the meat goes up, or the U.S. dollar strengthens back or you have an export political problem in one or a couple of countries, this meat is going to back up in the U.S. market, which is what's happening right now and you see the impact it has on U.S. pricing and U.S. hog market. I think we need 10%. I don't know whether we'll even get 10%. The other thing we need is some moderation on this grain.

<**Q - Christine McCracken**>: Okay. Thank you.

Operator

-- question comes from the line of Ken Zaslow from BMO Capital Markets. Please go ahead.

<**Q - Kenneth Zaslow**>: Hey, good morning, everyone.

<**A - C. Larry Pope, President and Chief Executive Officer**>: Hey, good morning.

<**Q - Kenneth Zaslow**>: What are your -- I guess, Bo, I don't know how much you'll talk about this, but what are your different options for your asset sales? If you're going to be -- if the cash flow is not positive, but one of the things you did say is that you're looking to reduce the debt, I'm assuming that means that there are asset sales in the queue. Is that a fair assumption and kind of how do you think about the portfolio in that respect?

<**A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer**>: Ken, there are several smaller enterprises that we have that we would deem as non-core, and they may be in a position to be put on the sale block. We don't, we're not in a position at this point to comment on any of those specifically. But I think in reality, we're going to have to earn our way out of this thing in terms of our situation, we can't just shrink the business. It will be helpful, it will generate some cash, but we're looking for earnings to provide our ultimate solution, not necessarily just shrinking the business.

<Q - Kenneth Zaslow>: Will you talk about your philosophy in terms of what are the different options to you in terms of debt, convertible debt, equity. Will you kind of give us a little bit of a roadmap to how you're thinking about what you want to do for the capital structure? I know you don't want to be specific, but just philosophical views.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Well, I think if you look at the landscape right now, probably going back with a revolver very similar to what we have today, either in Europe or in the U.S., would be relatively difficult to do just in terms of the number of issuances that have taken place out there. Are probably much more skewed towards the ABL side than they are to the typical cash flow revolver.

But I would say that there are several examples in the protein space over the past few months to include Tyson, to include JBS, where people have gone to the capital markets and used an array of different financing vehicles and credit facilities. And I think you could probably pick the menu from that list that has already taken place over the past three to six months.

<Q - Kenneth Zaslow>: Okay. My last question, Larry, I think last quarter, you said that the Pork business may very well track to the $500 million for the year. Is that still something that you believe is doable and expected?

<A - C. Larry Pope, President and Chief Executive Officer>: I'm trying to remember the context of the --

<Q - Kenneth Zaslow>: Turnaround, I believe, is what...

<A - C. Larry Pope, President and Chief Executive Officer>: So you're talking about the turnaround? I don't think so. I think he's asking...

<Q - Kenneth Zaslow>: I thought, maybe I misremembered it, but I thought that last quarter you said that for 2010, your operating profit for Pork segment --

<A - C. Larry Pope, President and Chief Executive Officer>: Oh, yeah, yeah. Okay. I wasn't sure. [inaudible] question whether you were talking about hog production or meat processing --

<Q - Kenneth Zaslow>: You'd be very happy if you can get $500 million in hog production. But I'm not really --

<A - C. Larry Pope, President and Chief Executive Officer>: Well, I wasn't going to give you so much comfort there either.

<Q - Kenneth Zaslow>: Right.

<A - C. Larry Pope, President and Chief Executive Officer>: But no, I believe that your question is, do I believe that the Pork segment can deliver $500 million in operating profits? And the answer I would tell you is yes.

<Q - Kenneth Zaslow>: Great, I appreciate it.

Operator

Our next question comes from the line of Farha Aslam from Stephens, Inc. Please go ahead.

<Q - Farha Aslam>: Hi, good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Farha.

<Q - Farha Aslam>: Could you give us some color on how the businesses -- Turkey, Europe, Eastern Europe, is performing in the fiscal first quarter versus how they did in the fourth quarter?

<A - C. Larry Pope, President and Chief Executive Officer>: Why don't you just ask that question again, Farha, for Bo and I?

<Q - Farha Aslam>: We're just trying to figure out how the progression of some of your other businesses that we don't talk about as much is going to date versus how they were doing in the fiscal fourth quarter. Is Turkey profitability

improving versus the fourth quarter?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: In terms of Turkey profitability, fourth quarter of '09 was -- we cut our losses significantly from the second and third quarters of that year. I would say that we're probably steady in terms of -- slight losses in our Turkey business through the first half of this year and improving in the second half to a profitable level. But not dramatic profitability, but some profitability in the fourth and third quarter of this fiscal year.

Eastern Europe is probably steady with where we were. As we indicated, we were profitable in our meat businesses in Poland and Romania. And those continued to show those levels of profitability. A lot will depend upon currency impact in those countries in terms what the net bottom line is. And I -- was there a third area that you...

<Q - Farha Aslam>: And Campofrio?

<A - C. Larry Pope, President and Chief Executive Officer>: Campofrio, Farha, I would tell you, is not performing -- it's not doing as well as last year, and is tracking weak sort of losses to small profits, not much. That's an area that is not performing. And then to reinforce what Bo had said, I would tell you that Poland is doing very well. We had a very good year ex -- outside of foreign currency. We've had two record years, very solid years, in Poland. I'm very pleased with the business that's going on in Romania and I'm very pleased with the numbers we're seeing out of Mexico. These businesses -- that part of the business is doing very, very well.

And in spite of, in spite of some tough issues, I mean, Romania has got big problems and Mexico, I don't need to tell you, what's happened to pork consumption on an instantaneous basis. Again, things that -- swine flu is behind us in large measure, except the export markets. And so I expect those businesses to do just fine. I do not expect Campofrio to do well until this recession changes the whole buying habits in Western Europe. And Farha, I don't see that Western Europe is having a tough time. And I don't see -- I don't see Campofrio changing a great deal here till probably the end of the calendar year. I think it will muddle along at about break-even.

<Q - Farha Aslam>: Thank you. That's very helpful.

<A - C. Larry Pope, President and Chief Executive Officer>: Uh huh.

Operator

Our next question comes from the line of Vincent Andrews from Morgan Stanley. Please go ahead.

<Q>: Hi, this is Jackie for Vincent. Just two questions for you. First of all, how should we be thinking about pork margins going forward, given depressed lean hog value?

<A - C. Larry Pope, President and Chief Executive Officer>: I guess you were asking the question, how should we think, are you thinking, are you asking the question relative to the Pork segment, or are you asking that relative to --

<Q>: Yes, yeah, the pork processing segment.

<A - C. Larry Pope, President and Chief Executive Officer>: Oh, I think the pork processing margins are going to be fine. They're going to be continuing at the levels they're at.

<Q>: Basically running, I mean you think you'd be running above kind of a normalized three to 5% margin or something like that?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Yes. I think and you will have the benefit, as we move into this fiscal year, of a further enhancement of our reporting that we will breakout the packaged meats seg -- or packaged meat element of our Pork segment separate from the fresh meat segment. So you'll be able to track that and actually use that for comparative purposes to our competitors.

So we think we'll have -- you'll have much more transparency as we move forward. I think there is the jeopardy, if we are successful in creating cutbacks in live animals, increasing pig prices, that you may see some pressure moving forward in this year, frankly we hope, on the fresh meat side of the business, not that we're -- But that is indicative and hopefully of improved profitability for the company as a whole.

But we continue to be very, very impressed with the work that's been done by George Richter and his team on the packaged meats area, as well as consolidation of fresh meat and are anticipating improved results as we move into this coming year.

<A - C. Larry Pope, President and Chief Executive Officer>: Jackie, and just to follow up with Bo, I think you understand that if our profitability in hog production improves, that raises the price of livestock generally. And that increases the input cost in the Pork segment, which squeezes those margins for a time until it equilibrates. So that was the point he was making. If hog prices go up, then likely our margins in the Pork segment will be lower because their input costs will be higher.

<Q>: Right, right.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Thanks for the clarification.

<Q>: And then just one other question, are you thinking about hedging any differently? I mean in terms of your preferring shorter or longer dated contracts?

<A - C. Larry Pope, President and Chief Executive Officer>: We continue to look at that Jackie. Hedging is an important part of our business and has been, and we have been very successful at that. And our Chairman, Mr. Luter, is very much involved in that, along with our hedging, our Risk Management Department, which does a very good job.

And we are, year in and year out, very successful. I mean, there are sizeable profits that come from that. And we use different techniques. We are changing some of our views in terms of how to hedge grain at this point in terms of, not the same way we had in the past. And we are trying to -- I think the best way to say our hedging strategy now is that we believe we have a very solid meat business. So the goal is to really, through hedging, to manage the profitability or losses in our live production business, to manage those to a level that we know will not damage the company.

And so we may even hedge a loss, if need be, to -- in order to minimize those in order to get the maximum benefit out of the meat business. So if there's any thought process, it's -- from our side in terms of changes, it's thinking more about windows or such as opposed to ranges, as opposed to finite numbers. And secondly, to manage the hog production side so that we don't have these giant loses that we've experienced, that we try to prevent those from happening again.

<Q>: Okay, great. Thanks so much.

Operator

Our next question comes from the line of Tim Ramey from D.A. Davidson. Please go ahead.

<Q - Timothy Ramey>: Good morning. Thinking back to a year ago when we were talking about -- I can't remember if it was exactly a year ago when you announced your 10% production cut, but there about. But it almost seems like we're starting in a deeper hole right now with hog prices significantly lower than they were. Now I understand corn prices are lower too. But what makes you confident that 3% is the right number?

<A - C. Larry Pope, President and Chief Executive Officer>: Tim, it's another part of the business that we can do something about. One of the things that we're doing is managing what you can do. And the 3% relates to one of our operations, and it's our, and I'll tell you, it's our Dalhart, Texas, operation that sell pigs to Seaboard. Seaboard knows that. It's one operation we can essentially eliminate that process and cut all the costs to get full benefit from it. And it reduces the herd size and eliminates pigs on the market.

So it's what we can do. Is it the right number? Who in the world knows? That 3%, let me say that, our 3% will not fix the hog industry. That's what I'm confident of. Somebody else has got to do something. We've cut 13%, and it has -- the first 10% didn't fix it. I don't believe us going from 10 to 13 is going to fix the hog business. Bo, you have any comment?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think we still have to be mindful, Tim, that we still have obligations on some of these long-term contracts to people like Seaboard. So in actuality, we will reduce our sow numbers. We will then buy pigs in the open market to replace those obligations and deliver the pigs to Seaboard. So we will, in effect, reduce our exposure to the sow side and to that side of the business, reduce pigs for the whole industry as well as ourselves, and meet all of our obligations. So, and there are some other opportunities out there like those if we can find the right combination of supplies to replace what we need to do to maintain our relationships with those other suppliers.

<Q - Timothy Ramey>: That sounds like actually a closing of an operation rather than just a furloughing of a barn for a period of time, is that right?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: No. In terms of those operations, they are, frankly, a large part of Seaboard's business. We supply over 20 -- about 20% of Seaboard's raw material. So they're going to have to address that issue at some point down the road.

<Q - Timothy Ramey>: Thanks.

Operator

Our next question comes from the line of Christina McGlone from Deutsche Bank. Please go ahead.

<Q - Christina McGlone>: Good morning; thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Christina.

<Q - Christina McGlone>: Larry, I'm wondering what you are seeing from the industry, like you've said you've done a lot. Are you seeing other players start to liquidate? And then in general, I mean how long, in your thinking, what's the time period that this will play out over?

<A - C. Larry Pope, President and Chief Executive Officer>: So, Christina, I guess the best thing I can -- the best anecdotal information that I can give you is that at the pork expo this time last year, there was not much interest and not much discussion about cutting back. And the pork expo that happened I guess two weeks ago now, that was the key subject of the discussion of every producer, is that something has got to happen. And so that's a very positive.

Secondly, the banks have a lot of the equity, probably 40 to 50% of the equity in this industry has gone out. And so the banks are running out of assets to loan against. And so there is pressure from the banks in terms of all of these farmers need some sort of financial help in terms of covenants or more money or restructured loans. And the banks are running out of other assets to look to.

And so I think that that combination, and the fact that the summer hog market has just completely fallen apart for these producers. And they know that the fall generally is lower prices than the summer, has got to be an impetus to do something. Now, you ask how long is it going to take? This does take some time, Christina, I think that, I mean this could take the rest of the calendar year for this liquidation to really start to have sizeable numbers. And it would be in the next calendar year that you'd see the benefits.

<Q - Christina McGlone>: Okay. And then in the export markets, when you were talking about Russia, did that market reopen, it sounds like you were shipping there. I didn't realize it had reopened?

<A - C. Larry Pope, President and Chief Executive Officer>: It has. There are certain plants that are listed as delisted plants, and we have a number of the listed plants. And so, yes, Russia is open to those plants that are still on its

approved list to ship into that country.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I don't think, technically, Russia ever closed. I think they just reiterated that pigs could not be sourced from any area that had flu at one point in time, and basically just enforced their delisting activities that they had already in place.

<A - C. Larry Pope, President and Chief Executive Officer>: And it was the original list of those first few states because there's been flu incidences in almost every state now. But Russia did not recognize those other states.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Let's be perfectly clear, the actions in Russia and the actions in China had absolutely no scientific basis whatsoever for food safety reasons, pig safety or anything else. They were strictly non-tariff trade barriers to protect their own markets, period.

<Q - Christina McGlone>: Okay, and I know Mexico is open, but can you describe the demand that's coming out of Mexico since H1N1?

<A - C. Larry Pope, President and Chief Executive Officer>: Robust, how about that?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Record levels.

<Q - Christina McGlone>: And -- okay. And why have ham prices fallen then?

<A - C. Larry Pope, President and Chief Executive Officer>: Still got a lot of hams, Christina. A lot of those -- some of those hams go to Russia from other producers who can't send them to Russia. And the deli business, which is where some of those hams go in the deli case, some of that business, as you would imagine, has seen some declines.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: And a year ago, at this moment in time, we were the beneficiaries of large demand in China for carcasses, as they were approaching the Olympics and trying to solve some of their own domestic issues as far as food supplies were concerned. And that did take a significant amount of meat at the margin away -- out of the United States, and really created disappearance from the whole world. So we did have a factor a year ago that is now coming home to roost in terms of our own domestic and international demand for meat product.

Operator

And with that, speakers, I'll now turn the call back over to you.

Keira Ullrich, Investor Relations

Thank you, everyone, for joining us today. We appreciate it. Please call with me offline if you have any further questions.

Operator

And ladies and gentlemen, that does conclude your conference call for today. Thank you for your participation and for using AT&T Executive Teleconference service. You may now disconnect.

Exhibit B

Company Name: Smithfield Foods
Company Ticker: SFD US
Date: 2009-09-08
Event Description: Q1 2010 Earnings Call

Market Cap: N.A.
Current PX: N.A.
YTD Change($): N.A.
YTD Change(%): N.A.

Bloomberg Estimates - EPS
Current Quarter: 0.823
Current Year: 2.636
Bloomberg Estimates - Sales
Current Quarter: 3587.667
Current Year: 13695.750

Q1 2010 Earnings Call

Company Participants

- Keira Ullrich, Director of Investor Relations
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Other Participants

- Kenneth Goldman
- Christine McCracken
- Kenneth Zaslow
- Akshay Jagdale
- Christina McGlone
- Reza Vahabzadeh
- William Sawyer
- Farha Aslam

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Smithfield Foods First Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions].

I would now like to turn the conference over to Keira Ullrich. Please go ahead.

Keira Ullrich, Director of Investor Relations

Good morning. Welcome to the conference call to discuss Smithfield Foods First Quarter Fiscal 2010 Results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of Federal Securities Laws. In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2009. You can access the 10-K and our press release on our website at www.smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; Bo Manly, Chief Financial Officer and Dick Poulson, Executive Vice President. This is Keira Ullrich, Director of Investor Relations.

In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we request that you ask only one question and one follow-up, if necessary.

Larry Pope will begin our call this morning with a review of operations. Larry?

Larry?

C. Larry Pope, President and Chief Executive Officer

Thank you, Keira. And thank you for dialing in this morning. I realize it's the first day after the holiday and a long summer and I hope you had an opportunity this summer to try many of our products, like our barbecue ribs or hot dogs and a BLT never does bad in the summertime. So maybe that's a sign of the fall.

I am here this morning to report that we had sales of 2.7 billion versus 3.1 billion, which is a decrease from the prior year. I won't get into that much, except to say, Mr. Manly will discuss that in terms of where it is from a pricing standpoint and a volume standpoint some of this, of which we have orchestrated and have been talking about for some time.

In terms of loss from continuing operations, we are reporting a loss of 107.7 million compared with 29.1 million last year same quarter. On an EPS basis, that's $0.75 a share loss compared with $0.22 a share last year.

I hope you took note in the press release of a couple of one-time items that did come through the P&L, the closing of some of our hog production operations, again, that Mr. Manly will speak more directly to as well as some write-off of some loan amortization associated with refinancing.

And those totaled about $0.19 a share, bringing the total down to $0.56, which many of you have already picked up. In addition, we have about $6 million of restructuring charges that are going through the P&L that we did not highlight as part of the press release and as well, many of you know that we had a devastating fire in one of our major plants in Cudahy, Wisconsin and as well, the inefficiencies and the costs associated with that have been somewhat significant, yet hard to determine.

And those are also going through this P&L. And finally, we have an abnormally low tax rate, which as well had an impact on the quarter. So from our standpoint the quarter was extensively better than the $0.75 that you're seeing, even substantially better than the $0.56 that you're seeing.

And no question that the – that the results reflect the continuing adverse environment in hog production. This has been going on. All of you, who follow the company are fully aware of this. We continue to live with the impact of high grain costs last summer, which we fed the last of that really the end of April and those costs are now coming through the inventory being sold and that's coming through the P&L, which is creating the losses.

I think Bo will speak pretty clearly about how we think all that's ending this quarter, the second quarter and we do see our costs coming down, as well our costs as we've commented during – in the press release are down for the quarter, down from the prior quarter, down from the prior year, but they are not where they are going to be, reflected $162 million loss in hog production versus only a $39 million loss last year. That does have $34 million related to the write-off of some farms in that number. So you need to make that adjustment when you're looking at the numbers in terms of hog production.

Productivity has been excellent. We've had good weather. We've had very good instances of low disease. Our livability numbers are doing extremely well. So from an operations standpoint to some degree, that's a negative because that means a lot of hogs are being produced. But from a business standpoint of operating the hog farms, that part of the business is doing extremely well.

As you know, we have announced another reduction in our sow herds from 10% to 13%. That has virtually been accomplished. I haven't checked this morning, but we should be at the very, very end of that other 3% and essentially we are 13% down on the sows as of now.

I think you're aware that the hog market was sharply lower. That is to some degree the result of the H1N1 virus that hit at the very end of the fourth quarter and that certainly immediately depressed the live hog market, as well as some of the fresh meat results as a result of the export markets closing and the impact of dumping meat back on the U.S. markets and that related impact back on the hog market.

I will tell you, and I'll make some comments as I look forward, we do remain committed to this end of the business, although we are reducing our exposure and many things are going in the right direction from – we believe hog prices going up, to costs going down, corn going down from a strong corn crop this fall. So in spite of these horrible results in the hog production side, it does look like the business is trending up and there is a glimpse of a hope that the sow

liquidation is occurring.

On the fresh meat side, we're reporting a loss compared with a profit last year. That is the result of the H1N1 virus. Many of the major cuts are down 10, 20, 30 and 40% below last year's levels as a result of marketing this product back on the U.S. market. We continue to have very high levels of slaughter and that results in an awful lot of fresh meat in the market.

I think you all know that the export markets are somewhat politically motivated and the China market, which has been a source of a lot of the exports for many, many, many years, is closed. We don't think there is scientific basis for that, but it's there and that's impacting our operations some 5 or $6 a head in terms of the oddball items that we routinely put into that market.

Japan as well was spooked at the beginning of the quarter and that has impacted the exports into China. Beyond that, the export market actually is pretty good. Several of the other countries are actually doing very well. So while it may sound like things are terrible on the export market, they are not. It's just essentially one country and a little bit in the Japanese market. Overall, exports are actually fine.

I want to turn your attention now to the highlight of the release, which is the packaged meats business. We indicated to you this quarter we would start breaking those numbers out and we've done that. If you look, we're reporting 107.8 million versus 34 million in our packaged meats, our packaged meats business, that segment of the total pork group and I am extremely pleased with those numbers and I think we're approaching 9% return on sales. I think if you compare those with our competition, you will see that we are equal to or better than others.

This is an area of the business that I have been talking about and talking about and talking about. Our numbers are extremely good. This is the area we are extremely optimistic about. We're reporting earnings – the operating earnings of three times last year's numbers. They are a record for the quarter, they're nearly a record period, and it does reflect the benefit of some cheap raw material. But we are just beginning to really see the benefit of our restructuring plan and those are really not in these numbers in any measurable way.

And as I indicated earlier, there are $6 million of restructuring charges largely coming through that line. As well, we've got the fire that we had the fourth of July weekend that affected our packaged meats business and all the costs associated with immediately relocating product has gone through this line item.

And I am happy to report this management team responded instantly to that, all of our customers were served, and we continued to ship all of our customer needs in spite of a very significant fire that will have longer term impacts in terms of our packaged meats business and we've got to react – we've got to decide ultimately how we're going to react to that, but it has been significant. Yet even with that, I am pleased that we're delivering these kinds of numbers.

Let me turn your attention for a second to the restructuring. This is something we announced, as you know, some six months ago. It is going extremely well. Five of the six plants are closed, the seventh plant is right on schedule for the – right after the end of the calendar year, we fully expect to achieve the savings. As we have indicated, we are on time and on budget. Our capital expenditures for that are right on the numbers.

In terms of the costs for the quarter, they were below what we thought they would be and the savings that we achieved for the quarter were more than we expected. So from an implementation standpoint, the restructuring is going better than we thought it would go and it did positively impact the quarter as opposed to negatively impacting it as we had expected.

We are in the midst of an SAP implementation across the organization. That is more than 50% complete. It will be completed here by the end of the calendar year or virtually completed. We are having the typical bumps in the road, although they are really insignificant from a financial reporting standpoint. It's the typical things have you with SAP when you have to go from A to Z and if you skip any step in between, it doesn't like printing an invoice.

But it's the right thing for us to do. We're not even highlighting any impact of that going through the P&L, that's how comfortable we are, that we're making the conversion across what is a very complicated system. And it is going well and will position us extremely well once this thing is fully implemented.

On the international front, as we reported a number of our operating companies over there are doing very well in spite of the recession; Poland, Romania, Spain, Mexico, they are all profitable and while the number is only showing a 7.3 versus a 5.9 million comparison, that has some fairly significant currency losses, whatever they call, translation losses in there of roughly another $6 million, so it would have really been 13 million versus 6 million. So that part is going very, very well. I'm very pleased, in spite of a worldwide recession our international operations are actually doing pretty darn good.

In the other category, that's really our Turkey operations and the cleanup of our cattle selling, rather our cattle operations that we sold out this quarter that's showing a reduced loss. The Turkey business is improved, although we are not where we need to be on the Turkey side of the business.

Finally, the financing, which Bo will speak to on a more lengthy basis, I'm very pleased with the job we've done. I think we have shored up the balance sheet, although I was not so worried. I think we've demonstrated the ability to have access to the Capital Markets and refinanced a couple of billion dollars. It did come at a cost in increased interest expense, but we've eliminated the covenants and I think positioned the company from a maturity standpoint to weather the future pretty darn good.

With that being said, I'm going to turn it to Bo and then I'll give you some comments on the future once Bo's complete. Bo?

Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Thank you, Larry and good morning everyone. It's been a busy quarter at Smithfield for the finance and accounting departments. We have refinanced over $2 billion of debt while addressing critical issues of liquidity, covenant risk and pending maturities. We sold 625 million five-year secured 10-year notes in July. Simultaneously, we completed a $1 billion ABL revolving credit facility replacing our previous 1.3 billion domestic revolver.

Concurrently, we negotiated a new term loan agreement effectively extending the maturity of our $200 million term loan from fiscal 2012 to 2014. In August, subsequent to the quarter end, we upsized the bonds issued in June by 225 million for a total of 850 million in new bonds. We use these funds, plus cash on hand to repay the balance remaining of our 225 million euro denominated European revolver.

Our balance sheet and ABL created cash on hand and available liquidity of over 1.15 billion at quarter end, the strongest position ever for Smithfield. We anticipate paying the remaining 206 million October 2009 bonds with cash on hand. Following this payment, we will have effectively no U.S. maturities until fiscal 2012. Clearly, we have removed significant balance sheet risks relative to liquidity, covenants and maturities. This flexibility has not come cheap, particularly in these unusual credit markets.

Our annual adjusted interest expense and fees is expected to rise from 222 million last year to between 270 and 275 million this fiscal year. Larry has described in detail the proactive steps we've taken to reduce our exposure to commodity risks by reducing our sow herd by 13% with the last phase taking place in this recent quarter. The last reduction was the result of the wind down of the PSF Texas farm operation. Efforts are ongoing as well to sell the Coffey farms in Missouri with approximately 20,000 sows.

These proactive steps have required the company to take a non-cash 34 million pre-tax write-down of hog production assets. Smithfield experienced a loss of 108 million during the first quarter of fiscal 2010 compared to a loss of 13 million in the same period a year ago. This loss in the quarter just ended translates to a loss per share of $0.75. In addition to the non-cash $34 million write-down of hog assets mentioned earlier, we also recorded a $7 million charge related to early debt cancellation. If our earnings per share are adjusted for these two significant charges, we'd show a non-GAAP EPS of $0.56 per share.

The operating profits from the pork segment were 101 million for the first quarter of fiscal 2010 compared with 62 million in the same period a year ago. We are extremely pleased that for the first time this quarter, Smithfield is able to

separate the results of fresh and packaged meats within the pork segment. This provides transparency to the outside world and competitive comparability not previously available.

Packaged meats contributed operating profits of 108 million for the quarter, over a 200% increase compared to the same quarter last year. The packaged meats improvements were driven by restructuring efforts to lower overhead, margin enhancements through sales coordination and consolidation, as well as lower cost of raw materials. Fresh pork results reflected moderate losses for the period as recessionary pressures particularly international, affected demand more negatively in fresh than branded and packaged meats sales.

The hog production segment showed $162 million loss for the quarter compared to a $39 million loss for the first quarter last year. These results were below the company's expectations. The summer hog price rally never occurred, a victim of H1N1 flu and recession. Rather than expected seasonal rise, the Iowa, Southern Minnesota prices fell a penny from $0.43 per pound in the fourth quarter of fiscal 2009 to $0.42 in the quarter just ended, and $0.56 in the same quarter a year ago.

Hog production costs did decline in the first quarter as predicted, from $0.63 in the quarter end in April to $0.59 in the recent quarter. The decline in raising costs reflected lower corn prices. Costs in the quarter we are now in are expected to decline further and fall to the $0.50 per pound range by the second half of the year. The first quarter fresh pork and packaged meats sales declined year-over-year due both to lower volume and lower fresh pork selling prices.

The international segment saw sales increases in their home currencies. However, changes in exchange rate reversed those increases when translated to dollars. Hog production sales fell due to lower hog prices and fewer heads sold to third parties. Other segment sales increased due to the inclusion of cattle sales. Consolidated operating profits for the quarter declined from 3 million a year ago to a loss of 75 million, principally caused by the $162 million loss in hog production, more than offsetting strong improvements in packaged meats.

The international segment demonstrated improved operating profits, as Poland, Romania, Mexico and Campofrio all showed improved operating results before currency gains and losses. SG&A declined 4% quarter-over-quarter due to currency changes, lower compensation, and marketing expenses. The adjusted interest rate this quarter was 161 million compared to 45 million in the same quarter a year ago. This 34% increase was caused principally by $5 million in new interest related to the $625 million bond issue and 6 million related to the convertible bonds. As I stated earlier, we anticipate our annual interest expense to be between 270 and 275 million.

Please note that as an important housekeeping item that we were required to adopt a new accounting rule this quarter that affected the accounting for convertible debt that we issued last summer. The rule requires issuers of convertible debt to reflect interest expense at a market rate rather than the coupon rate, in our case 4%. The rule change also required us to reflect the debt at a discount on the balance sheet with a corresponding increase in equity. An extensive footnote on our 10-Q will cover the effect of this change.

With regard to other balance sheet issues, debt increased 444 million during the quarter due to capital markets transactions. The debt-to-capitalization ratio increased from 54% at the end of the prior quarter to 56% at the end of this quarter. If the debt-to-cap ratio was expressed on a net of cash basis, however, our ratio at the end of the recent quarter would have been 52% due to large cash balances. The company remains committed to reducing the debt-to-capitalization ratio below 50% within the next 24 months.

The company anticipates paying the remaining 206 million of our 2009 bonds from cash on hand lowering the debt-to-cap ratio. We have no current applicable covenants at the end of the quarter. We have no current applicable covenants at the end of the quarter. Larry, I didn't know I would ever be able to say that.

Depreciation for the quarter was 61 million compared to 69 million in the first quarter of the prior year. We anticipate 260 million of depreciation for the full year. Capital expenditures for the last quarter remained at a bare minimum maintenance level of 34 million. Full year CapEx will remain under tight control at or less than 200 million.

The tax rate for the quarter was 25% and we anticipate full year tax rate between 34 to 36%. A word of caution, tax rate calculations during quarters with highly fluctuating profits and losses will produce unusual tax rate percentage

calculations.

The company's hedging activities contributed a loss of 48 million during the first quarter of fiscal 2010 compared to a profit of 3 million in the same period a year ago. Our infamous corn hedge contributed a $59 million loss, more than offsetting profits in hog hedges.

The final 20 million of the $6 corn hedge losses will run off in the second quarter hog production P&L. Please bear in mind that losses on these hedge positions were cashed out and paid several months ago and today represent non-cash charges to the income statement.

The cumulative effect of the capital markets transaction bolstered the company's cash and short-term borrowing capacity. We ended the quarter with over 1.15 billion in liquidity to include 500 million in cash. Liquidity today remains over $1 billion after paying off the European revolver in August shortly after the end of the quarter.

In July, the company experienced a devastating fire at our Patrick Cudahy plant in Wisconsin. No one was hurt, but large portions of the plant experienced total destruction. We believe we have more than adequate insurance protection for the full amount of all damage. Limited production has resumed. Damaged operations have been absorbed by other Smithfield plants at somewhat higher costs, but with no significant disruption to customer service.

In closing, we have made major strides to strengthen the balance sheet and reduce financial risk and will continue to do so in the future. We are focused on ROIC, return on invested capital, and the pork restructuring plan is proceeding well and the results are beginning to hit the bottom line.

Our packaged meats business is hitting on all cylinders and we are reshaping our business model better focused on capturing the strategic advantage of integration with less exposure to commodity elements of swine production. Our international business is producing positive results and gaining momentum. We are excited about the future in all aspects of our business. We are well positioned when the hog market turns and pork restructuring cost savings will pay even more dividends when the recession subsides and demand builds.

I thank you very much for your attention and I will now turn it back to Larry. Thank you.

C. Larry Pope, President and Chief Executive Officer

Thank you, Bo. I think you can tell that was a very complete report. We've got an awful lot – awful lot to say this morning, as we have in most of the past quarters. This management team is extremely, extremely busy and extremely challenged.

I look to the future by glancing back at the past for a minute and telling you that, I sort of feel like the world has been against us for 12 months, and this thing – it may very well be turning. I look and say record high corn prices we've had in the last year, an oversupply of live hogs and historically low live hog prices combined with that.

A 75-year recession hits us in the fall. The financial crisis, which hit many, many companies, and we had a reactive export market that's driven by political maneuvers more so than really science, and Smithfield got its own, got its own flu, the Swine Flu or the H1N1 as it was named, and it called Smithfield a Ground Zero. We have a devastating fire. And then finally we have the government working against us trying to create incentives for more ethanol to raise corn prices. And then beyond that, the currency markets impacted us on the export side.

I want to comment at some point and say, "God, do you got anything left?" I mean this company has taken on about every single challenge that could possibly occur in one year and yet, I believe this management team has been fully on their game and fully responding to every time an event has occurred to us. We are positioned well.

We do see that sow liquidation looks to – may be – I'm not going to go out there today and say it's happening, but it should be a couple of weeks. Sow liquidation looks positive. The USDA just announced a purchase of $30 million worth of pork products. That will help a little bit.

Our live production costs are going down, and I look out there at the raising and the whole hog production business and I did some simple math for me. If there's 6 million sows out there and I don't know what this industry has invested in live production, but let's say it's 2,000 or $3,000 a sow, that's 10 to $20 billion invested in this whole industry, the whole enterprise value of the whole industry.

Well, they've lost 25% of the whole enterprise value of the industry in the last 18 months, and if we're going to lose somewhere between 25 and $50 million a week in this industry, there is no chance in the world this can continue. I am absolutely positive that the industry will run out of money. That's the one thing, is just when the banks make the decision that something's got to change, and I do think we've reached an inflection point, something has to happen.

I made the joke when I got the – first got the job as the President of this company in 2001 and we had a tremendous November and December and I remember reporting to the board in January, this trend will not continue. Well, given where we got the loss on the live production side of the business, I think I can report to you this morning this trend will not continue. It cannot continue, or you will only find a pig in a zoo. There simply won't be any on any farms.

Our restructuring is going extremely well. We've got minimal benefits to this point. At some point, that's going to start hitting in a big, big way and we aren't expecting, but so much this second quarter, but starting into the third quarter, we're expecting very sizable benefits from that.

These export markets will change and China, which has been the source of oddball shipments forever, will open back up at some point to oddball going back into that country and the Mainland China will open back up to normal shipping. That will happen.

And I think, I think about in terms of what the management team has done some two to three years ago, well before this financial situation and the recession hit. We started focusing on packaged meats. I'm showing you the numbers this morning for the first time we've ever been able to show you what packaged meats is really doing.

A year and a half ago, we – as Bo pointed out, we started cutting back capital expenditures well before we had any financial situation in this country. We started cutting back, 18 months ago. We started reducing our herds 18 months ago. We made the management changes and the reorganization 16 months ago.

We went to the capital markets 14 months ago. All of this happened before anything happened in the financial markets last fall. Since then, we have merged our European operations. We've announced a restructuring of our pork group.

We've done $2 billion worth of refinancing to further strengthen the balance sheet. And we've further reduced our sow herds and strengthened our whole management approach to this business. I am extremely pleased with what this management team has done.

This team has been working tirelessly now for a very long time, yet I think that they have been hitting on all cylinders and executing absolutely, almost perfectly as these things have occurred. As I said, we had a Swine Flu that we reacted to immediately. We had a devastating fire we reacted to immediately, with no loss of shipments to our customers.

From my standpoint, I've actually never been more optimistic about the business. We've got one thing that's impacting this business. That's live hog production. Unfortunately, we have a government policy out there relatively to ethanol that is attempting to increase blending rates from 10% to 15% on what I believe is a failed policy and the economics associated with ethanol simply don't make any sense.

For goodness sake, you don't burn the floors in your house for heat for the wintertime. Yes, your floors will work well to heat your house, but it's not an economical way to heat your home for very long.

Well, converting corn into gasoline is not good economics. I'm in favor of alternative energy policy and pursuit of that, but not every idea is a good idea. And this is one I just simply cannot support and people are forgetting the impact it's having on another whole big piece of this economy.

From a bottom line standpoint, this company is managing what it can manage and I think the future is extremely bright, once live production returns to more normal profitability levels, we're absolutely poised to benefit from that in a huge

way.

And I think the fact that we – just this quarter we almost made as much money in packaged meats as we lost in the hog production side of the business excluding the write-off of the Texas farms, we made almost as much in packaged meats as we lost in the farms. That's a statement about what happens when this business turns around.

I am bullish to be bullish and I'm pleased with where we are, in spite of the results we're reporting this morning.

With that being said, Keira, we're open for questions.

Keira Ullrich, Director of Investor Relations

Operator, please open the line for questions.

Q&A

Operator

[Operator Instructions]. Your first question comes from the line of Ken Goldman from JPMorgan. Please go ahead.

<Q - Kenneth Goldman>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Ken.

<Q - Kenneth Goldman>: Question is on potential equity offering. I know that you guys have kept it as part of your arsenal. Can you give us some color on how likely a secondary is at this point? I know you are eager and I understand why to get your debt to capital ratio down. But it seems to me that if you think the business is going so well and it seems, except for a huge chunk of it, going well, that you would probably think the stock would be worth more six months or a year from now. Why would you do an equity offering now as opposed to a year from now?

<A - C. Larry Pope, President and Chief Executive Officer>: Ken, you didn't surprise us with that question, I'll say that. Bo and I must have commented before this call, let's see if that will be the first question or the second. It was the first. So you didn't surprise us with that.

At this point, we would tell you that we've done a good job of strengthening this balance sheet and Bo highlighted all of those things. Yes, we continue to look at the balance sheet and making sure that we have a strong balance sheet. I don't think that we feel like that we have any severe pressure that we have to do anything and we have no covenants that force us to do anything.

On the reverse side of that, we certainly want to make sure that we have all of the financial resources we need to execute this plan that is certainly starting to hit on full cylinder. So I can't really comment on that. You know I couldn't do that. That would be wrong one way or the other. And so – but I will tell you we keep our eyes focused on the capital markets, just like everyone else does and we've accessed it when we thought it made sense and yet we don't feel any pressure that we have to do anything.

<Q - Kenneth Goldman>: Okay. And one quick follow-up on interest expense, 270 to 275 is guidance, is that for gross or net interest expense?

<A - Robert Manly, IV>: That's for gross.

<Q - Kenneth Goldman>: Okay. Thank you.

Operator

Your next question...

<A - C. Larry Pope, President and Chief Executive Officer>: Yeah. I wish there was much net, what you get paid on money than pay those...

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: We don't get a rebate.

<A - C. Larry Pope, President and Chief Executive Officer>: Gross and net are not very far apart.

Operator

Your next question comes from the line of Christine McCracken from Cleveland Research. Please go ahead.

<Q - Christine McCracken>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Christine.

<Q - Christine McCracken>: Just wanted to follow up. You had commented that you're reducing your exposure to production and you've clearly taken quite a bit out at this point. Are you seeing moves by others to take out a similar amount of production, or do you expect to take additional cuts to your own breeding herd...?

<A - C. Larry Pope, President and Chief Executive Officer>: Christine, I don't think we – this clearly – Smithfield cannot solve this problem alone, unless we were to take everything out. We can't solve the problem. But the answer to that is yes, I have had conversations with several sizable, more than sizable, large producers, and in fact very large producers and I would tell you that they are doing some liquidation, but again, I don't think they can solve it. I think this industry has got to solve it collectively.

I do believe that everyone is now looking and when I'm talking to people who are financially extremely strong and they are cutting back, that's got to be a statement about those people who are not financially strong. So – but the answer is, yes, we're not – there are others cutting back. We're not the only one.

<Q - Christine McCracken>: Are you seeing an exchange of assets more than actual production coming out? I guess that's a concern with a few of these guys that do have quite a bit of financial backing actually coming in, maybe other packers to secure supply. Does that slow down the liquidation process? What's the risk of that?

<A - C. Larry Pope, President and Chief Executive Officer>: Christine, I'm thinking, I don't think I know of a single exchange, maybe I'm just slow this morning. But I don't know of a single exchange, or a single sale that has really gone on to any degree at all. I don't know of anybody doing any of that. I think they are genuinely taking out sows and closing farms down or reducing the density inside the farms. Bo, do you have any comment?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: No, but I think Christine, back probably three or four months ago, we were aware of a couple of producers that had taken some sow operations down because of economics, but also health reasons. And they may come back at some point in the future if the market conditions improve, but the longer that they are out, the less likely they will be to come back. There may be some that close down, but in our case, when we're closed, typically it should be a permanent closure.

<Q - Christine McCracken>: And just to be clear, you aren't – will you possibly not announce further cuts in your herd, or have you made any decisions about taking additional cuts?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: We have continued to look under the whole program of focusing on return on invested capital. And as I mentioned in my discussion, there is a hog farm in Missouri that – we call it the Coffey farm, that we have looked for other buyers to take that farm out of our portfolio. It does not make absolute strategic sense for us and we could move out of that ownership position.

<Q - Christine McCracken>: Thanks.

<A - C. Larry Pope, President and Chief Executive Officer>: And, what I would say to you – what I would say to you, Christine, is that we may take – we may reduce our exposure to hog production. It does not necessarily mean there will be a reduction in the industry. I mean we have got a couple of things, as Bo just commented, that we would look at marketing to somebody else at a price. We are not doing any fire sales. We have no pressure to have to do this but we would like to reduce the exposure.

However, I remain absolutely committed to this business. We are not -- there have been some rumors out there Smithfield's going to spin off the hog production business or they're going to get out of hog raising. That is not true. And in fact, we are selling on an integrated basis that whole story domestically and particularly export, but even domestically. And we have no intentions, no intentions of getting out of the livestock raising business. In fact, we are going to stay committed to that in a big way. We're just going to reduce our exposure to it because of the high volatility.

<Q - Christine McCracken>: Okay. Thank you.

Operator

Your next question comes from the line of Ken Zaslow from BMO, please go ahead.

<Q - Kenneth Zaslow>: Hey, good morning, everyone.

<A>: Good morning, Ken.

<Q - Kenneth Zaslow>: In terms of the sow liquidation, how much do you think is needed?

<A - C. Larry Pope, President and Chief Executive Officer>: I don't know. There's – Ken, there's two things. I mean I would say now you could need as much as 10% if I thought – excuse me – productivity was going to stay at these levels. Everybody's having record productivity and hog weights are up. Disease is down. At some point – and the weather is terrific. At some point – excuse me – all that's going to change. I mean disease is not gone. The weather's not going to be nice forever. And today we would need that much, but I think you don't need that much on an ongoing basis. And it's largely because it's tied to the export markets. I mean the amount of product going out of this country has grown dramatically from 7 or 8%, isn't that right, Bo, to about 20.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: With 10% reduction, we would feel a lot more...

<A - C. Larry Pope, President and Chief Executive Officer>: Oh my gosh! 10% I think we would be – we'd have dramatically different live.

<Q - Kenneth Zaslow>: Right.

<A - C. Larry Pope, President and Chief Executive Officer>: And I think we could even at much less than that.

<Q - Kenneth Zaslow>: So if you include gild, which obviously, you guys have a better understanding than we do just because we don't get the type of data that you probably understand, how much liquidation is actually occurring right now? And I guess as a follow-up to that, if I take that you guys are about 16% of the industry and you guys are cutting 13, you guys are about 2% of that. So how much is actually going on in terms of total liquidation now? And how much do you think it's getting to?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Ken, I think there is another element that you really can't see in terms of the liquidation equation and that's the rate of replacement gilds.

So for us to look at merely sow slaughter doesn't tell you the whole story. I think you're going to have to wait until the September pig report comes out at the end of this month to truly understand what's happening to the sow herd.

But I can optimistically say we've had two weeks of back-to-back increased slaughter over a year ago. We've gone from 3% higher to 4% higher. Two points make a trend, and that looks like to me as though it's close to a third or 50% higher than it was the week before, so that's all good.

<A - C. Larry Pope, President and Chief Executive Officer>: And so the other piece of that is that we continue to have the reduced numbers coming in from Canada, and so that is certainly taking meat off the U.S. market.

But don't downplay the impact of this productivity. The people I've talked to in the industry, they may be reducing their herds, but they are all commenting they are having tremendous productivity with the animals in terms of livability. Those numbers are excellent.

So a lot of this may very well be – a good portion of this may very well be offset by weights and productivity right now.

<Q - Kenneth Zaslow>: And $500 million for the pork business -- seems like you're completely and utterly on target for that. No reason to change that, is that fair?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I'm not sure I understood the question, Ken?

<Q - Kenneth Zaslow>: I think in past conference calls, I think you guys have said the pork business should be able to generate about $500 million of operating profit on an ongoing basis. There's no reason not to believe that? I mean, you guys seem to be hitting the ball – the cover off the ball on that. Is that fair?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Yes.

<Q - Kenneth Zaslow>: Okay, cool.

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you, Bo. One of the things that is showing here on the earnings is the fresh pork number showing a loss for the quarter. I mean fresh pork is extremely strong right now and has been now for – for 30 days, Bo?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Right.

<A - C. Larry Pope, President and Chief Executive Officer>: And so that's – and we move into fresh meat season. So we're still extremely bullish on the pork group, extremely bullish.

<Q - Kenneth Zaslow>: Great. Thank you.

Operator

Your next question comes from the line of Akshay Jagdale from KeyBanc. Please go ahead.

<Q - Akshay Jagdale>: Good morning. A couple of questions. Firstly, on the hog production side can you I mean, when we look at sow slaughter, I know it's one part of the equation. But historical average on a weekly basis is about 66,000. So if you look at the numbers last two weeks, they've been about 70,000 or so, which would mean that even if we continue at this rate, at the 70,000 clip for the next year, you'll take out about 200,000 sows.

To me, it seems slower than, you know, what you would expect. So I mean what is it that we're missing? I mean you keep saying that you've had conversations with other large producers, etcetera, who seem to be cutting their herd. And obviously all of us can see the numbers for hog production.

But what is it going to take? I mean, the government program which they're going to buy 30 million now -- can you talk a little bit about the situation about sow slaughter and the capacity of sow slaughter, as it relates to the demand for sausages, et cetera, that may play into this whole equation? Can you just talk to that?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think that when you ask is there a missing element that is making the analysis somewhat more difficult, and as I've mentioned before, you've got a sow replacement rate, a gilt replacement rate, that probably, under normal conditions, is somewhere between 40 to 45% of the entire herd gets turned over every year as replacement animals. If they cut that back by as little as 20%, you could have almost a 5 to 10% change in these sow herd merely on the basis of replacement. You can affect it probably faster by impacting replacement rate than you can by slaughter rate of the industry.

So I think that it is a very important element. You really won't see that until the September hog report, and we do know that those issues have been going on. If you can get information out of some of the breeding stock companies, I think they will tell you that their sales for replacement animals have been very, very slow and anemic, which is a good sign. That means that we're not replacing at a very high rate, and it could be that all of the change in sow numbers is coming through replacement rate changes.

As far as slaughter capacity is concerned, we probably have the ability to kill another, I would say, 7 to 8,000 head of pigs on a weekly basis, as far as sows are concerned, above what we're doing today. We could probably approach 80,000 sows per week.

<Q - Akshay Jagdale>: Okay, that's helpful. On the pork side, it's very helpful that you are breaking out these numbers. Can you tell me what your profit per pound was on the packaged meat side or overall this quarter?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: It was close to $0.16 per pound.

<Q - Akshay Jagdale>: Now, is that – is that seasonal? Because I know in your past presentations you've talked about getting as high as $0.12 a pound on some items, but $0.16 for the quarter, I mean is that, is it seasonal?

Can you talk about sort of what the normalized range is? Does that need to be up now, given what you're seeing in terms of restructuring in that group, et cetera? Because you had said fresh spreads are around, you know, 2 to 3 cents, and the packaged side is anywhere from 4 to 12, right? So if you had 16 cents overall, on the pound, I mean how should we think of that on a normalized basis?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, I think one of the things that we have been preaching now for a couple of years is the fact that we would achieve a $0.10 return on 3 billion pounds, or $300 million. So $0.16, it doesn't take a rocket scientist to realize that's above $0.10. We are benefiting from low hog prices and cheap raw material.

I do believe the $0.10 is very achievable, and I think the 12 or $0.13 may – and maybe more than that. That's hard to see at this point, but I think you can count on the $0.10, as long as raw material stays cheap. It's part of the offset to the live production side, and the fresh meat. It's an offset. It will likely come down.

But you should not think this is a particularly seasonal impact that's occurring now. In fact, we're going into a pretty good season. The second and third quarters are really the good seasons for the packaged meats business, not the first. We haven't really hit the good season yet. So, I think that, we are preparing to adjust our sights higher for that, given how successful this restructuring is going, and our ability to manage this end of the business.

It is – I've continued to say it quarter after quarter after quarter. Everyone wants to talk about live hog prices and sow liquidation, and I've continued to say, can I have my two minutes to talk about the packaged meats business, where we're returning 9% of sales, guys, and no one seems to ever pay attention to that. They only want to know what do you think the grain market is going to do in the future. You never ask me what the bacon business is going to do in the future.

But I think you should be careful using $0.16. That's -- you should be careful with a number that high. That is really very good. But I think that our $0.10 or more is where we're planning the future to be.

<Q - Akshay Jagdale>: And one last one on the hog production side. You gave some numbers on your commentary about hedging, where I think you said $11 million in hedging gains on the hog side. I mean that translates into about

$0.01 a pound roughly.

But the difference between your raising costs that you report and the hog price is a lot different than what you get from your EBIT when you divide it by the number of pounds you process.

Can you – I still see that there's a, you know, $0.05 per pound difference in that number, which I attribute to hedging, but you said your hedging gain on the revenue side was only 1 cent a pound. So is your international production business that profitable? I mean is it earning $30 million plus?

I'm just trying to get a sense of this, because it's very important in modeling the business, because we do model the business based on spreads, but then there's this other component, which is pretty sizable and has been in the 200, $250 million range for the last two years. So can you help us understand that piece? I mean it's hedging and the international operation. So can you just help us understand that a bit better?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think, frankly – I would like to ask you to call me offline, because I'm somewhat confused by exactly what it was that you asked. And I'd be happy to address that, but I'm not sure that was – there were a number of questions in there. So please, call me and I'll be happy to answer it.

<A - C. Larry Pope, President and Chief Executive Officer>: Well, Bo, I don't think there was any comment that you made about an $11 million hedging gain on live production in this quarter.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: No.

<A - C. Larry Pope, President and Chief Executive Officer>: If you said that, I must have been sleeping.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: We did have positive results in hog hedges that were offset dramatically by our corn position.

<A - C. Larry Pope, President and Chief Executive Officer>: That's correct.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: But I didn't quote any number. And there are a number – you can't necessarily just take the delta between the two, because we've got hedging in soybean meal, we've got hedging in interest rates, we've got hedging in our utility commodities.

<Q - Akshay Jagdale>: Okay, thank you.

Operator

Your next question comes from the line of Christina McGlone from Deutsche Bank. Please go ahead.

<Q - Christina McGlone>: Thank you, good morning. My question is, on the packaged meats side, how much restructuring benefits are flowing through? Because the press release talked about it, and I think Bo talked about it, that Larry, you had said there's not really a lot flowing through yet.

And then if – can you quantify the cost of the fire and the business interruption related to that?

<A - C. Larry Pope, President and Chief Executive Officer>: I'll address the fire issue. We have a small deductible – I think about $1 million, which was taken into this quarter's P&L, a de minimus amount.

But we have full coverage, and we've been working very closely with the insurance adjusters, and we're very confident we'll have full coverage. So I don't think you'll see any potential negative impact from that fire as far as the P&L is concerned. We've got a lot of work to do to even finally determine what the total impact of the fire was, but we believe we've got full coverage.

<A - C. Larry Pope, President and Chief Executive Officer>: In terms of the restructuring, I would tell you that we anticipated having a $5 million negative impact on the quarter's P&L, when in fact we had what we estimate is an $8

million positive to the P&L.

So – from our standpoint, that's how much better this is going than we thought it would be. We're ahead of schedule on the savings side. We're actually ahead of schedule on savings and we under-spent on the cost side, so both of those went our direction this quarter. Part of that was driven by a decision to close one of the six plants ahead of schedule in order to deal with the pension issue.

<Q - Christina McGlone>: Okay. And just – the fire – I was just wondering what expenditures you made in the quarter, because I'm trying to think about, you know, getting a pure kind of run rate number. So...?

<A - C. Larry Pope, President and Chief Executive Officer>: Let me answer that quickly. We don't have that number. It is an extremely complicated process of determining what the impact out of one plant to another plant and relocation and transportation.

That is – there's no way we would ever get our auditors to agree to some number related to that. All I can tell you is it was significant and it has impacted us, but we just dealt with it.

<Q - Christina McGlone>: Okay. And then my follow-up – Larry talked about China, I guess there's a pending decision by the administration with respect to China-made tires, and that they may retaliate with pork. I mean how should we think about that? What's the risk associated there?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: They can't retaliate any more than 100%. We've been blocked out of the Chinese market – all North American pork, U.S., Canada, and Mexico – since the last week of April, associated with the H1N1 flu. So frankly, they can't do any more damage than they have done already.

<Q - Christina McGlone>: Okay. Thank you.

Operator

Your next question comes from the line of Reza Vahabzadeh from Barclays Capital. Please go ahead.

<Q - Reza Vahabzadeh>: Good morning. Reza Vahabzadeh from Barclays. Just a question on packaged meat EBIT improvement, which was pretty significant, Larry or Bo, how much of that improvement in ballpark terms would you attribute to the lower raw materials costs?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Impossible to tell. That is a very difficult question. You could attribute some element of cents per pound, but really this quarter that we're now in will probably reflect even lower costs of raw materials, but it will also reflect, correspondingly, some of the best ham markets and other processed meat – packaged meat sales we'll have.

So difficult to give you a specific number. It's just not that easy to calculate.

<A - C. Larry Pope, President and Chief Executive Officer>: The only thing we're saying is that we had $0.16 for the quarter – 15, 16 cents for the quarter. That is a big number. But it doesn't have the restructuring in it. Had we been fully restructured, it would have been significantly higher than that.

But don't count on our packaged meats business delivering 16 or 17 cents a quarter. Don't count on that. That number, I hope we can do it, but that number is a big number.

<Q - Reza Vahabzadeh>: Right. I mean, Larry, you're still guiding to a $0.10 or better number, as a normalized EBIT and this quarter you did $0.16, maybe even $0.17. So, is it fair to assume that some of that 6 or 7 cents was due to unusually low raw material costs?

<A - C. Larry Pope, President and Chief Executive Officer>: I mean you can make that analogy if you want. I don't think it's that much.

But I do think the $0.10 – we have reached my goal of the $0.10, and I would tell you we have surpassed my goal.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: And the $0.10, if I may underscore, was really before the restructuring program was even instituted. And we've said that, on a conservative basis, we think that was $0.02 alone, or a 20% improvement in packaged meat profits, just from that process. And we think we're going to blow right through that number as well.

<Q - Reza Vahabzadeh>: Okay. And then one housekeeping item. What was the total debt number at quarter end, if you marked the convertible at the face value of $400 million?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Can we get back to you on that? That's not just absolutely a straightforward equation, but we can get you that number.

<Q - Reza Vahabzadeh>: Great, thank you.

Operator

Your next question comes from the line of Robert Moskow from Credit Suisse. Please go ahead.

<Q - William Sawyer>: Good morning. This is Will Sawyer for Rob. My question is on fresh pork. In August, you know, margins were very good. Do you think, even though we're entering a seasonally good period, that an increase in slaughter rates could cause margins to go back into the red?

<A - C. Larry Pope, President and Chief Executive Officer>: No, I don't think margins on fresh pork are going to go into the red in the fall portion of the year. I don't believe that. Unless – the only thing I think that would do that – was your name Phil?

<Q - William Sawyer>: Will.

<A - C. Larry Pope, President and Chief Executive Officer>: Will. Well, the only thing I think that could conceivably do something like that is to have some strange change in live hog prices, where they would shoot up dramatically, where it wouldn't transfer through into pricing. But no, I don't see fresh pork going in the red.

<Q - William Sawyer>: And then on the tax rate, guys, just to make sure I'm clear, is the 34 to 36%, is that for the year or ongoing?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Full year.

<Q - William Sawyer>: Full year, okay. Thank you.

Operator

Your next question comes from the line of Farha Aslam from Stephens, Incorporated.

<Q - Farha Aslam>: Hi, good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Looks like you got quoted in the paper this morning. You're in the paper this morning for Smithfield.

<Q - Farha Aslam>: I'll have to check that out. My question is do you think that banks are getting tougher with the hog farmers, and forcing liquidation? Or do you think it's just sort of capitulation on the part of the industry?

And going forward, are you at all concerned about the supply of hogs? And when do you think there's a concern about a shortage of supply?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I can't wait for that concern about shortage of supply, Farha. I dream about that.

In terms of the banks, I guess you probably could maybe even get better anecdotal information out of banks than we could. They are going to be very guarded about telling us any information.

And so frankly, we're at a point now where we've heard the liquidation story from the banks for so long that, until I see it showing up in the slaughter numbers, I'm – I discount it somewhat. But I do think they are putting a lot of pressure on these guys, because they are coming to the end of their equity.

So just the tone and the conversation of both producers and bankers has changed dramatically in the past 30 to 90 days. Once pigs got below $0.40, I think it gave those folks a cold towel in their face, time to wake up, that this thing isn't going to change until somebody does something different.

There's a saying that says that the mark of stupidity is doing the same thing over and over again and expecting a different outcome. And I think that that has been true for some of the livestock producers in the past – that they have got to change if they want to return to profitability.

<Q - Farha Aslam>: And are you supporting the producers that you buy from, or do you feel like you'll have adequate access to...

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: We – when you say support, we're buying hogs every day from them, according to every contractual relationship we have, so that hasn't changed at all. And certainly, if they said they were having issues financially, we would be very, very compassionate towards them.

But we haven't stepped in to support any of the producers on a financial basis at this point. And that's the key to our integration model, is that we've got pigs – we're making sure we have the right pig in the right place at the right plant to execute our marketing strategy. And that's key to the integration going forward.

<A - C. Larry Pope, President and Chief Executive Officer>: The only producer we're supporting is Smithfield at this point.

<Q - Farha Aslam>: And my final question is kind of looking out over the next six months into this key fall short-run period, what do you see in terms of retail demand and foodservice demand?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: In terms of food service demand, I think that's going to be about steady with what it has been. There has been a decrease overall in particularly white tablecloth, but at the same time, expansion of the QSR sales. So – and actually that really feeds to our strong point in terms of our packaged meats positioning and our foodservice sales. So that is good for us.

At this point, I don't know that we or anybody else is totally capable of predicting what's going to be the impact of the government stimulus plan on pork demand, as we move forward. Certainly I think that we've hopefully reached the bottom in terms of that process and that we can look at a better economic outlook going forward.

Operator

Okay. I will turn it back to you Mr. Pope, for any closing remarks.

C. Larry Pope, President and Chief Executive Officer

To summarize, the futures markets certainly don't look all that good for live production for now several more months and quarters into the future here. So I think that the live production side of the business is going to continue to be challenged, at least on the sales side.

We will see continuing decline in our raising cost and we expect once this hedge runs out, they will decline. I think you all know there's $3, close to $3 corn out there and that looks to benefit us. So I think, as I said, the live production side of the business can't stay where it's at and fundamentally, it's moving our direction, even if we don't have liquidation.

I want to finally say that this management team under the direction of George Richter on the pork processing side, as well as our international presidents and our live production people, have done an excellent job at managing through this business through these critical times here.

I hope you focus where we're beginning to break the numbers out: the meat side of the business is doing excellent and is going to continue to deliver some very good numbers. And I'm hopeful over time we can convince you that this is an important profit driver of this company and will continue to be a better and better piece of this business.

And we believe the best days for Smithfield are in front of us. All we've got is one issue. Live production needs to return to profitability, which it will. Thank you very much.

Operator

Ladies and gentlemen, this conference will be available for replay after 11:00 AM. today through September 22 at midnight. You may access AT&T teleconference replay system at any time by dialing 1-800-475-6701, entering the access code of 112846. International participants, please dial 320-365-3844. Those numbers again are 1-800-475-6701 and 320-365-3844 with the access code of 112846. That does conclude our conference for today.

Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

Exhibit C

Company Name: Smithfield Foods
Company Ticker: SFD US
Date: 2009-12-10
Event Description: Q2 2010 Earnings Call

Market Cap: N.A.
Current PX: N.A.
YTD Change($): N.A.
YTD Change(%): N.A.

Bloomberg Estimates - EPS
Current Quarter: 0.823
Current Year: 2.636
Bloomberg Estimates - Sales
Current Quarter: 3587.667
Current Year: 13695.750

Q2 2010 Earnings Call

Company Participants

- Keira L. Ullrich, Director of Investor Relations and Corporate Communications
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Other Participants

- Christina McGlone
- Kenneth Goldman
- Vincent Andrews
- Farha Aslam
- Ryan Oksenhendler
- Christine McCracken
- Robert Moskow
- Kenneth Zaslow
- Akshay Jagdale
- Timothy Ramey

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Smithfield Foods Second Quarter Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Ms. Keira Ullrich. Please go ahead.

Keira L. Ullrich, Director of Investor Relations and Corporate Communications

Good morning. Welcome to the conference call to discuss Smithfield Foods second quarter fiscal 2010 results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of Federal Securities Laws. In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2009. You can access the 10-K and our press release on our website at smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; Bo Manly, Chief Financial Officer and Dick Poulson, Executive Vice President. This is Keira Ullrich, Director of Investor Relations.

In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we request that you ask only one question. If you have another question, please get back in the queue.

Larry Pope will begin our call this morning with a review of operations. Larry?

C. Larry Pope, President and Chief Executive Officer

Thank you very much, Keira, and thank all of you for joining the call this morning. We are reporting a second quarter loss from continuing operations this morning of $26.4 million or $0.17 a share compared with $32.5 million or $0.23 a share of loss last year. For the six months, it's a $134.1 million loss or $0.90 a share and $61.6 million loss in the prior year six month period or $0.44 a share.

I hope you took the opportunity to take note of a couple of things that are going through these earnings numbers for the quarter, including a benefit that the company is receiving as a result of the effective tax rate resulting related to our International operations. Mr. Manly will speak more directly about that in his comments but that helped the EPS calculation, some $0.14. And there's about $0.05 of adverse numbers that were laid out in the press release. So we think the quarter is more like a $0.26 in loss compared with a $0.23 loss last year.

I am pleased to report that we are showing an operating profit and that is a change from where we've been in the past. So I think things are turning for us. The results for the quarter clearly continue to be driven by the adverse environment that we've been experiencing in Hog Production now for quite some time, quite a long time. This quarter we did improve our raising costs which we had been saying for some time we would be improving. That continues to be an improving environment as we chewed through this $6.00 corn and certainly we fed the last of the $6.00 corn at the very end of last fiscal year and all of the hogs associated with that have now been marketed through the second quarter. And there was about a $20 million impact of that in the quarter but there is no more $6.00 corn that will be coming through the P&L.

Unfortunately, I would tell you that's being replaced with $4.00 corn. So we are not back in historical levels of the 2.50 and $3.00 corn but we are far below those levels that we had previously locked in. I know the big concern out there is what's going on with sow liquidations and whether the herds are liquidating to the point that we have the balance back and Hog Production can return to profitability. We continue to take a leadership role there and we have continued to liquid -- to take sow reductions and liquidation in our own herds and all of that has essentially been completed from Smithfield's side. So I think we've certainly done more than our fair share in terms of what this industry needs.

Productivity has been good. We are continuing to see the reductions as I am sure you all follow from the Canadian imports on feeder pigs and slaughter animals and I know that you are keeping track of the sow slaughter numbers which albeit are not particularly great, I think continue to indicate at least there is some liquidation.

I can tell you that I know of in the East it has been pretty public about some of the producers on the East Coast that have been cutting back besides ourselves. We are getting a little more, a little more information in the Midwest and I am saying that I have not seen the significant Midwest reduction that would probably be needed to put this industry back in balance. I think there is some going on out there now, and we have seen the tightening of supplies to our plants.

You have all seen a run up in the live hog market of recent. We think that is – we think that is, that is real. We are having a touch of a weather market this week. But we think that is real, and I think that the information we have is some of that liquidation, people have made the decisions that it is simply not worth it, that the profitability, the losses they have incurred and the profits – the opportunity for the profits are simply not there and I think they're – I think we may have begun to see some of this and our people believe that the hog markets – hog markets are turning and I think that's favorable for Smithfield.

The Pork segment is clearly the part of the P&L that is just continuing to excel. The Fresh Pork numbers are very solid, albeit a bit below last year, they're still above historical levels. That is part of the overall environment in fresh pork, the result of cheap live logs. And even this quarter, this is traditionally a strong period for the company as we have the seasonal impact of the hog run. And that's what drove a lot of the losses in live production was not the raising cost but in fact the live hog prices which is the hog run and what I am pleased about is it's turned even in the middle of the run and so we have got good numbers on the Pork.

On the slaughter side, our export business, I know there has been a lot of discussion about that, it's sort of good and bad that's the way the export markets work. Japan is certainly very weak, China is closed although, seemingly going to

reopen here almost imminently, and on the reverse side, Russia has been good although closing as we speak and Mexico is, has become a, become a big, big market for this company. Where before we had been selling but so much in the Mexican market, that's become a very good, that's been an extremely good market of recent to the company.

So exports are down for all of us, and the industry, although of late, trending back up and even in the first month of the third, of our fiscal third quarter our exports are above last year. So that part of the business is, has got its ups and downs but overall I think is helping the Fresh Pork numbers.

The big news continues to always be what's happening on the Packaged Meats side of the business. These numbers speak for themselves. We are reporting this morning 131.1 million in operating profits from Packaged Meats compared with 40.4 million in the same quarter last year. And I think if you look at the year-to-date numbers, both the quarter and the year-to-date are three times the levels we were at and we were very pleased with the numbers we were producing last year and so these are extraordinarily good numbers.

The company has been focusing on this. I know I sound like a broken record saying again and again and again and again, this is the focus of the company that I have so much trouble getting so many people on Wall Street to pay attention to. This is propelling this company's profitability and were it not for the changes we have made in that, the company's financial situation would have been worsened significantly over this last year. But we started this well over two years ago closing in on three years now. And I told you then I thought that you would see some big benefits of that.

The restructuring is part and parcel of the last part of this. We are not through with that from a P&L standpoint. The benefits of that have not truly impacted us except in a modest way to this point. And we have projected a $55 million benefit this year. We fully expect to get that. We got 7 to $17 million benefit in the current quarter from the restructuring, largely showing up in Packaged Meats. And we were expecting to achieve half that.

So again the benefits are coming faster than we thought they would come. And beyond that the overall structure of this cost structure of this end of the business and the sales disciplines we have put in place are working to a tee. We have benefited from cheap raw material, I know that. And I don't expect as these raw materials increase, with associated with these hog markets; we will see some movement back down in these Packaged Meats margins. Well, I hope the answer is that they will not, but they likely will, as the P&L moves from the Packaged Meats to the Hogs.

However, I am fully convinced that what we have done in this end of the business has structurally changed who we are and we as an organization. This is the focus of the business and all of the organization is focused around that. The management changes we made a year and a half ago with the creation of a new Chief Operating Officer for the Pork group and the changes we made with a couple of the executives there are working just as we expected they would.

And all of that is coming together with Smithfield, I believe, repositioning itself in spite of the issues we've had to deal with on the financial front that Mr. Manly has spent an awful lot of his time the last year focused on. That has not changed the focus of these operating companies who have continued to move right down the path of continuing to reposition this Packaged Meats business and be more disciplined and walk away from low margin business and rationalize plant capacities.

I think we had indicated that we've thought that we would be able to improve plant utilizations from 81% to 89. As of this point we are at that 89% utilization rate. We have accomplished the capacity changes and that part is working. It's not going to cost us much more in capital expenditures. We had projected about 50 million, probably going to cost us 56 million. So we're really very close on that and that's simply because we made a decision to buy some new equipment as opposed to relocating some used equipment.

But I couldn't be more pleased and I couldn't be more optimistic about what I think the Packaged Meats business is going to do for this company. We have suffered some volume loss. I think we indicated in the press release, we were off about 4%. If you read the first quarter press release you'll see that we indicated we were off 9%. We have stemmed those losses and some of that was the relocation of some of the equipment and some of the business we simply could not fulfill at that point in time.

So that has now left a sharply below where we were even the first quarter is all these shifting of plants and processing capacity around, production around. And I think the thing is settling now. We will – we are more than okay with having less volume. This organization has been chasing some business that we probably should not have been chasing, and we are not doing that anymore, and I think that's positioned us very well and the bottom line is benefiting handsomely from that.

Beyond that, the International business is performing well, Poland is having – Poland is having a good year. Our Campofrio investment in Western Europe has turned some, and it's still not where that needs to be. There's a lot of opportunity still on that side of the investment as that, as Western Europe wrestles with a recession that's even deeper than the recession in the United States. And their products are impacted as a result of that.

I won't spend but just a minute to say that I think from a financial standpoint, we have turned the corner there pretty nicely, completed this common stock offering back in September. I know Bo Manly is going to talk about. But I think from a – we've got the liquidity to do whatever this company wants to do.

We have redirected ourselves, and are not spending the time on the financial side of the business that we had been this past year. And we are back to focusing ourselves toward the future and where we are going to take this Packaged Meats business and how we are going to increase our communication directly with the consumer and move this business even farther down the road. I think our profit margins are trending exactly where we want them to trend but there's still more there. And we have refocused the attention of this management team back to the Packaged Meats business and so I don't think we need to spend so much time on financing anymore.

With that being said, Bo why don't you take them through your comments and I will give them some forward-looking information in a minute.

Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Thank you, Larry. Good morning, everyone. With this second quarter we concluded a series of capital market transactions that we began last June. These include in August, a $225 million secured follow on bond offering, as well as the issuance of $308 million in equity in October.

We have built a balance street structured to remove to the extent possible, covenant, liquidity and maturity risks. While we would like to see a turn around in swine production, on immediate horizon, we have built a balance sheet that can withstand the continuation of current conditions, if herd liquidation outside of Smithfield, continues at a slow pace, and losses persist.

I will save you a repeat of our P&L and EPS results. The results for the most recent quarter reflect a higher than normal effective tax rate of 64%, which when compared to a normalized rate benefited EPS by $0.14 per share. Results also include 6.5 million in impairments and one-time after-tax charges equaling $0.05 per share. These adjustments would collectively translate our EPS loss from $0.17 to an adjusted non-GAAP EPS loss of $0.26 per diluted share.

The company sales decreased for the second quarter, and year-to-date compared to the same periods a year ago. Lower unit prices impacted all major sales elements during the quarter, and year-to-date. Also, over $100 million of the sales dollar decrease is attributed to a stronger dollar relative to the local currencies in our International operations.

Domestic fresh tonnage increased 2% during the quarter while Packaged Meats volume declined 4%. Tonnage in our International segment increased 17% led by advances at Animex in Poland.

Our consolidated second quarter operating profit was 1.8 million, about steady with a year ago, but an improvement of $75 million compared to our first quarter. Hog Production operating losses of $167 million were offset by improved performance in all other segments, but most importantly by record operating profits of $174 million in the Pork group. These Pork group results compared favorably to the $93 million operating profit generated in the same period a year ago.

Improved performance at Animex and Campofrio combined to enhance results of the International segment for the quarter and year-to-date compared to the same periods a year ago. Near break-even results in our turkey operations, significantly reduced losses in the Other category.

Domestic lives hog market prices declined 32% to $0.36 per pound this last quarter compared to $0.53 in the same quarter a year ago. This reflects continued oversupply and dampened export demand.

The Hog Production group has continued to reduce domestic raising costs to $0.53 per pound in the quarter just finished, down from $0.58 last quarter and $0.63 per pound in the same quarter a year ago. We anticipate further cost reductions as we move into the second half of the year to near $0.50 per pound.

One housekeeping item here. Please note that these raising figures are before interest. This represents a change to past practice of publishing these figures inclusive of interest. We made this change to provide these figures on the same basis as we present our Hog Production segment operating profits.

Results in domestic Hog Productions for six months reflect $34 million in impairment charges related to shuttered swine assets. International hog operations in Poland and Romania were profitable for the quarter and six months, compared to losses experienced in both periods a year ago.

SG&A decreased $30 million or 14% in the second quarter and 37 million or 9% in the first six months of the fiscal year, lower marketing expenses and legal costs and beneficial ForEx contributed to these reductions in SG&A.

Interest expense for the quarter was 71 million, and $132 million year-to-date compared to 56 million and $101 million in the same periods a year ago. These increases are associated with higher rates of our new borrowings.

I also remind you of the new accounting rule effective in our previous quarter that requires us to apply a market rate of interest to our convertible debt. We continue to estimate full year interest expense of $275 million.

Depreciation and amortization for the quarter just ended totaled $59 million compared to $68 million in the same period a year ago. We project full year depreciation at approximately $245 million.

We continue to maintain a high level of discipline around capital expenditures, with total spending of $99 million year-to-date. We may boost spending on quick pay back projects as we move into the last half of the year, if we see better Hog Production results. We remain committed to CapEx spending this fiscal year at significantly less than depreciation. We continue to project our annual pension expense to be 67 million, but have lowered our pension funding requirements by 28 million to 48 million for the year.

Our effective tax rate for the second quarter was 64%. This higher than normal rate is the result of a change in mix of domestic losses and international profits. We project a full year effective tax rate between 35% and 37%.

We continue to reduce debt. Compared to the second quarter a year ago, total debt declined $359 million and debt net of cash declined $781 million. Our debt to capitalization ratio continues to decline as well. The issuance of equity during the last quarter reduced the debt to capitalization ratio from 56% at the end of the previous quarter to 51%. On a net of cash basis, the debt to cap ratio declined from 52% at the end of the first quarter to 47% at the end of the second quarter.

The company has no applicable financial covenants in our domestic debt facilities at quarter end. We have a very strong liquidity position with total cash and borrowing capacity of over $1.2 billion at quarter end. Available cash was over $400 million at the end of October. We are very aware and respectful that this results in a significant negative arbitrage. We created this cash insurance policy to ensure adequate liquidity through the down side of the hog cycle.

When we are convinced that the market has turned, and we no longer need cash to support Hog Production losses, we will more aggressively employ this cash to fund needed CapEx and other capital uses. The stock offering during the second quarter increased total shares outstanding at the end of the period to 165,835,632 shares. This also increased weighted average shares used in the EPS calculations for both quarter end and year-to-date periods.

Hedging activities during the quarter resulted in a loss of $19 million. This loss was almost entirely attributed to the last 20 million of the unprofitable corn hedge Larry had mentioned. The company has recently begun to use hedge treatment accounting for certain risk management strategies relative to live hog inventories sold to third parties.

The Pork group continues to evaluate the claim associated with the fire last quarter at the Patrick Cudahy facility. Production at other Smithfield plants has been flexed to fulfill all customer needs. We expensed our $1 million casualty deductible in the first quarter. We are currently working closely with our insurance carriers and are confident we will successfully resolve the claim on terms favorable to the company.

We remain excited about the company's financial prospects in the coming quarters. We feel more comfortable about achieving a profitable balance between hog supplies and demand. We have shed non-strategic hog production assets reducing our commodity exposure. Solid Packaged Meat margins continue to follow through into the third quarter. Our Pork restructuring program is on track, on schedule and at budget to achieve further improvements. Our International business is making solid contributions in live production, fresh and Packaged Meats.

Our joint venture and minority interest contributed profits compared to losses a year ago. We have disciplined capital expenditure program. Our balance sheet has never been more robust and we look forward to improved results, in the second half of this fiscal year.

I thank you very much for your attention and I would like to turn it now back to Larry. Thank you.

C. Larry Pope, President and Chief Executive Officer

Thank you very much, Bo. I think Bo gave a very complete report there and I hope gave you reassurance on the financial front that the company has addressed what we believe were the financial issues associated with this company. We have acted with severe discipline associated with the capital expenditures.

Looking forward I have indicated to the organization, that we will be a little more liberal with capital expenditures. We have a lot of projects in the queue that have very quick paybacks and we are moving forward on some of those. I think that I can say with some confidence today that the cash that we've got on the balance sheet, we likely will never need, in order to meet some of the vagaries of this business.

I was very concerned at the last earnings call I think I've probably said that about the impact of the H1N1 virus as it came through the Fall and Winter season. It appears to be a non-event relative to our business and seems to be dropping off the television nightly news. I think Americans realize this is a mild disease and that its part of the process for the flu for the fall. So my concerns there were not necessarily founded. In addition, it appears that the – I continue to be concerned that there's going be a double dip in this economy. It looks if there is it is not going be now. It's going to be a while away.

The big issue is that I think that the losses in Hog Production are coming to an end, and coming to an end pretty quickly right now. And so that has been a severe drain on this P&L and has dragged the stock down and I understand that. People don't know when this is going to turn around. I think the futures are indicating that today, calendar year 2010 you will be profitable raising pigs. And so you all are aware that we routinely take advantage of those markets and so we're looking at those pretty closely.

As well, I am pleased to report that the EPA has indicated that they're not going to at least near term increase the blending percentages from 10% to 15%. That was certainly a big concern here just a few months ago and even until December the first. I am not necessarily sure they're not going to go to some higher blending rate but at least they're looking at the science. And at least the voice of those who have concerns in many industries is being heard. And for that we appreciate the government officials and the authorities listening.

Hopefully, they're paying a little bit of attention to what it is doing to hog producers out there and the supply of protein to the consumer but it's ultimately going to result in higher prices. But it does appear that they are listening. And I see that today as a positive.

As Bo indicated, the restructuring will be finished. We will finish that during our fiscal third quarter.

All of the remaining construction to be done to relocate any of the production will be finished this quarter before the end of January.

Bo did point out the fact that we have focused this organization on return on invested capital. Going forward, that's going to be an important focus of this organization. That's been very beneficial to us, as we look at the details of our operations and see whether they're delivering returns that propel this company forward.

The export markets look to be improving. I mean, China has announced the reopening. And that's going to be good at some point. Japan will recover. Japan is certainly weak today and it's been one of the big – one of the darker spots in the export market, but it will get better. I mean that country will recover and it's a very good market, very, very good market, for our industry. And so our results are in spite of, in spite of a poor export market in Japan.

I am pleased to say if you read my conclusions and outlooks that I'm optimistic. As Bo said he expects us to be profitable in the second half. I do, too. I think that this Packaged Meats business is for real and going to get better. Although I'm not sure on – I think on a pound-for-pound basis it will stay at these levels when these raw materials return. However, I think we will be well above historical levels, well, well above historical levels going forward.

I am extremely optimistic about what this organization is doing, and the attention of this management team. In adversity they have performed beyond my expectations and I could not say anything nicer about the way this organization has pulled together and the success that we've been able to pull off in the Packaged Meats even in this adverse times.

It only excites me about our cost structure and our disciplined approach to the customer going forward. This is going to be very beneficial to this company. And I am looking much longer term, now. We are going toward the customer from this point forward.

We are changing our focus into something we have termed the new era of Smithfield, where we're going to be more consumer oriented from a company standpoint and we think that's going to begin to take this company from a 100% push company towards a pull company. That's not going to be a run. It's not going to happen overnight. Just as I told you three years ago, we were going to focus on Packaged Meats. I'm telling you that we're now going to focus on having some pull associated with this product. It's going to take time to do that and to introduce ourselves in some cases to the consumer in a much more real way, but I think it is the future. And I think this organization is ready for it and excited for it. And I think the benefits are going to be extremely good for us.

With that being said, Keira, we'd welcome any questions.

Keira L. Ullrich, Director of Investor Relations and Corporate Communications

Operator, please open the line for questions.

Q&A

Operator

[Operator Instructions] And the first question does come from the line of Christina McGlone with Deutsche Bank. Please go ahead.

<Q - Christina McGlone>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Christina McGlone>: Larry, you did talk a lot about Packaged Meat, kind of, potentially the margin contracting because of the increase in pork prices, and we have seen pork prices increase from the quarter. So I'm just curious, first

on the top line point of view from the volume fall of 4%, how much of that was rationalization versus how much was market forces? And then what is your outlook for the second half there as pork prices increase? And if you could just specify your pork profit per pound in Packaged Meat as well?

<A - C. Larry Pope, President and Chief Executive Officer>: Wow, I'm not sure I got all of those questions. Keira, I hope you or Bo were writing.

<Q - Christina McGlone>: Sorry, I tried to fit it into one question.

<A - Keira L. Ullrich, Director of Investor Relations and Corporate Communications>: That's a long question.

<A - C. Larry Pope, President and Chief Executive Officer>: Let me take the big question. We are achieving I think I am right with this, Bo, about 17 or $0.18 a pound.

<A - Robert Manly, IV>: Yes.

<A - C. Larry Pope, President and Chief Executive Officer>: On a pre-tax profit basis from our, from our Packaged Meats, Christine and for those who have been following the company now for some time, I had a target. I know I keep repeating myself, but I'm not sure who remembers including me, but that this organization had a target of $0.10 a pound when we were achieving numbers way below that. We're making profits now four times that level. Now that's not all because of pricing, that has a lot to do with cost structures, because we have driven a lot of cost out of this thing.

So what I am telling you is, that I don't believe that I am going to continue to deliver 17 and $0.18 a pound when hams and bellies and trimmings move back up associated with the hog market. However I do believe that, they're going to be well above where we've been in the past and our organization is very comfortable that, that $0.10 goal that I had as the initial goal that we will equal and very likely exceed that by a substantial margin and so, I hope that answers your question. It will be dependent upon what the market force is out there from the competition.

I think your other question was, we've had a 4% reduction in volume and how do we attribute that margin to our discipline, versus the market. The retail, the retail side of the business, Christine is very good. We have not seen the fall-off on the retail side. In fact we have seen some up-ticks in the retail side, and so none of that is a result of that. We have seen some deterioration in the food service as everybody has, and so we have got a bit of it with that. And then the rest of it is discipline where we have walked away from low margin business.

I don't think I could segregate those numbers to you probably today, but the majority of it I would tell you is the discipline and the walking away because we shuttered capacity. In many cases we don't have the capacity to make it without going into overtime on weekends and we are not going into overtime if we don't have a good margin on it. So the majority of this is walking away from business that we did not want. Keira and Bo, what else did she ask that we missed?

<A - Keira L. Ullrich, Director of Investor Relations and Corporate Communications>: Outlook for the second half in pork.

<A - C. Larry Pope, President and Chief Executive Officer>: In Pork, I think, in the fresh pork business I think that's going to, fresh pork is probably going to feel some of this, feel some of this price increase because you can't get your prices back immediately. And so I think that we could see some fall-off in the fresh pork margins, although, if these export markets open and China is for real, China is a very large market for this, for this industry, fresh pork margins could be okay as we go into the second half. I don't see them getting any better, let me tell you that, if anything they'll get worse. And I think that you will see the Packaged Meats fall off some and you will see the Hog profitability come up nicely.

<Q - Christina McGlone>: Thank you.

Operator

And the next question comes from the line of Ken Goldman with JPMorgan. Please go ahead.

<Q - Kenneth Goldman>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Hey, Ken.

<Q - Kenneth Goldman>: I guess one question, if futures prices hold, I know you don't have a crystal ball, but you did guide it seems fairly confidently to positive EPS in the back half of the fiscal year. Are we talking given today's assumptions in the futures market, are we talking closer to $0.10, $0.50 or $1. And I guess, I am not asking for specific guidance but just, any kind of help you can provide there.

[inaudible]

<A - C. Larry Pope, President and Chief Executive Officer>: 48.5.

<Q - Kenneth Goldman>: Well that would be even better. Whatever you've got, I will take.

<A - C. Larry Pope, President and Chief Executive Officer>: Well, Ken, let me tell you this. I will tell you this. I think that, and Bo can have his own opinion, we don't give guidance as you know that's a mistake and everybody who has seems to be steering away from it. I think the $0.10 shouldn't be too difficult. How about that? The dollar is certainly a challenge. So how about that? I mean if that gives you a range.

<Q - Kenneth Goldman>: That's perfect.

<A - C. Larry Pope, President and Chief Executive Officer>: That's a pretty big range.

<Q - Kenneth Goldman>: No, you know what though, that's perfect. Thanks very much.

Operator

And the next question does come from Vincent Andrews with Morgan Stanley. Please go ahead.

<Q - Vincent Andrews>: Thanks. Good morning, everyone. Larry, if I could just ask you on China, you seem to be pretty enthusiastic about it but if I recall back to when it closed, your view was that it wasn't that big of a deal when it was closed because you could still get products through other geographies. So I am just curious, has something changed that it will be better now that it's open relative to when it not being a big deal that it was closed?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, the thing I would tell you now is that if it opens – not if it opens, that's not a good comment. They have announced a reopening, They're simply dealing with the health certificate. I think that we've also got information, that there is a shortage going on in China. So the demand, the demand for the product on the export from the United States has probably improved.

So I see it better. And then beyond that, I see it for Smithfield, specifically because I think they're going to enforce at least in the mainland China ports that you're going to have to have ractopamine-free product and there are only a couple of us who could supply ractopamine product.

So I think that both of those, the nature of the product and the fact that I think we were looking six months ago, I don't know how good the information is coming out of China. One period, one three month period hog production is expanding, and three months later hog production is contracting. We do hear of disease going on in China. And we think that's going to increase the demand that they would routinely have. Bo, you have any comments?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I would make the observation certainly that if we are able to sell product directly to Chinese customers through direct ports into China as opposed to going through Hong Kong, it's a more efficient way to conduct that trade, and greater efficiency should translate to...

<A - C. Larry Pope, President and Chief Executive Officer>: Better markets.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Better price for the customer and a better bottom line for Smithfield in the process.

<Q - Vincent Andrews>: Okay. Thank you very much.

<A - C. Larry Pope, President and Chief Executive Officer>: Your welcome.

Operator

And the next question comes from the line of Farha Aslam with Stephens Inc. Please go ahead.

<Q - Farha Aslam>: Hi. Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Hi.

<Q - Farha Aslam>: Larry, you had mentioned that Japan was quite weak. But we have been hearing that sentiment in Japan is improving regarding pork, and those Japanese importers are increasing their imports of U.S. product. Have you seen that in the recent weeks?

<A - C. Larry Pope, President and Chief Executive Officer>: Bo, I don't have any information about that in any measurable -- No, I have not, Farha. Maybe we are not the ones getting the orders, and we have got some pretty good customers. Well, we've got some pretty good long standing customers. Now with that being said, the month of November was a good month for us but not a particularly good month for China for us. I mean for Japan. Our volumes in Japan are still down, over 20%, and have been down over 20%. So, Bo, have you heard anything? I haven't heard at all.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think at one point there was some discussion about potential feeder orders after the first of the year that would come in after they have gone through their Christmas holiday but at this point in time I think it's too early to really predict what's going to happen in the latter part of January shipments.

<A - C. Larry Pope, President and Chief Executive Officer>: Yeah. Farha, we're not seeing it.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Probably three or four weeks away from really getting a good view as to what's going to happen after the first of the year.

<Q - Farha Aslam>: Okay. We will check in post first of the year. Thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: Okay.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Thank you.

Operator

Next question does come from Ryan Oksenhendler with Bank of America. Please go ahead.

<Q - Ryan Oksenhendler>: Hey, guys.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Good morning.

<Q - Ryan Oksenhendler>: Good morning. I understand that you expect Hog Production losses to come to an end but I'm trying to get a sense of where profitability will go going forward. You know if I look back over the last eight quarters you've lost about $1 billion, and just looking at the profits from '05 to '07 you made about $1 billion so you've been about breakeven over the last couple of years. I think your normalized number is about 10 to $12 a head, has your view on that changed at all?

<A - C. Larry Pope, President and Chief Executive Officer>: Ryan, I will tell you that I believe that the profitability of Hog Production the next several years is going to be below historical margins. And I believe that 2010 for the hog industry is going to be a profitable year but I don't think it's going to be anywhere near historical level. We've still got $4.00 corn out there. We're still going to have raising costs, somewhere in the high 40s to very low 50s depending on your cost structure. And so the futures markets are indicating that the markets next year about $52.00, so, that puts you 4, $5.00 a head profit in raising pigs for the industry. So I think it's going to be a year of profits but I think it's going to be a year of what I will call unsatisfactory profits.

<Q - Ryan Oksenhendler>: Okay. Because you sound a little less -- you sound more cautious on sow reductions, you know, where does demand have to go for you guys to get back to $80 a head in profitability?

<A - C. Larry Pope, President and Chief Executive Officer>: Demand, we've got pretty solid demand. We would have to, for us to have that and have this level of hog production, we're going to have to have the export markets wide open, pulling this product and food service to come back to full roar what I call full roar levels. I don't think that is going to be. I think that the sow reductions have got to continue to occur because productivity in this industry has been very good. So with the same sows we're going to produce more meat and we're producing heavier hogs. So that's producing more meat. We got to continue to have, I believe, that there needs to be continued sow liquidation of 3, 4, 5% in this industry. And there's a lot of controversy about that comment that I just made but I believe that there needs be at least three more percent if not 5% additional sow liquidation. And I'm not sure people are going to do it. I mean, everybody has to make their own individual decisions and I'm not sure it's going to occur. I think there are people who can't get any more money from the bank and they're going to have to do something as a result of that. So I think you will see gradual continued liquidation and I think it will be another year as we work through this reductions that probably need to occur.

<Q - Ryan Oksenhendler>: All right. Thanks, a lot guys.

Operator

And the next question does come from Christine McCracken with Cleveland Research. Please go ahead.

<Q - Christine McCracken>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Christine.

<Q - Christine McCracken>: Larry, you had mentioned that some of your plants are beginning to see the impacts of herd reduction in the Midwest. I'm wondering relative to that if you expect any inefficiencies here let's say over the next year or so? And then once -- if we do go to the three- additional 3 to 5%, is it your expectation that we'll have to shut a plant or we're going be out of balance again, and what does that mean for hog prices, and your overall efficiencies in your plants?

<A - C. Larry Pope, President and Chief Executive Officer>: Christine, I will tell you that we are, in the Midwest, we have begun to have trouble getting enough hogs to run these plants. For the first time, for the first time we are really having days when we are having trouble filling the kills out. I think you probably will see – I think you probably will see a plant or two, if we see this three, or four, or five occur, I think you will see a plant, I think you will see a plant go down. If not one, maybe two because I think it could be ugly on the fresh meat side if this hog market runs up strong, it could be ugly trying to pass all of this through as you know with pricing. So I think the cut-outs could be real crappy and these inefficient plants would be at risk.

<Q - Christine McCracken>: Is this something you are considering or is this something you are expecting the industry to do?

<A - C. Larry Pope, President and Chief Executive Officer>: I will reserve that. I will reserve that comment except to say that I think this is something that the industry will do and we may or may not be part of that.

<Q - Christine McCracken>: All right. Thanks.

Operator

Your next question does come from the line of Robert Moskow with Credit Suisse. Please go ahead.

<Q - Robert Moskow>: Hi. I was just doing some simple math, which is always dangerous, but if hog prices are say $0.17 a pound higher next year in the $0.52 range, maybe that's more than it is on an annual basis, but do you think that you would have to pass on all of that in the form of pricing in your Packaged Meats division? I was just thinking if you have three billion pounds of packaged meat, that's about $510 million of pricing to pass through just roughly speaking. Is that how you look at it or is packaged meat kind of like a so farther down the line of derivatives of the pig that doesn't really work that way?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Well, I think, Robert, and this is Bo Manly. I think that there is somewhat of a disconnect between packaged meats pricing and what fresh meat is pricing as seen in the retail case. I would make the statement that I believe that retail margins are at, as far as fresh meat are concerned, are at some very, very high levels today. And that the consumer is paying a higher price perhaps than what is being reflected in the live price that we are selling live pigs to and that the cut out is reflecting as far as retail pricing to our customers.

So I think that there is the ability to raise hog prices up and that there is the ability to pass those on within the retail segment without having to raise dramatically prices to consumers, which I think speaks well for our ability to pass on price increases next year without having a total collapse in terms of the margin structure we enjoy today.

<Q - Robert Moskow>: Okay. Can you just talk a little bit about the competition you are seeing in other retail packaged meat product lines? It seems like all of the players are performing pretty well. Where do you think pricing is going to go on, I don't know, hot dogs and lunch meat and things like that or is it a pretty stable environment?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, I will tell you that you are right that a rising tide lifts all boats and I think if you look at Tyson and Hormel earnings, theirs have been up nicely, and raw material has helped with that. Ours are, I think are up; the slope of our line is substantially different than theirs but I guess your question is do you think we are going to be able to pass all of this through

<Q - Robert Moskow>: Yeah.

<A - C. Larry Pope, President and Chief Executive Officer>: And I don't know. I mean, pork is still very, very competitively priced compared to chicken or beef. It's still a very competitively priced product. There's no question that no retailer today wants to see a price increase on their packaged meats because they're feeling the pressure of their customers.

However, pork is still very cheap, and I think that's going to be the challenge of the industry because raw material is not going to be as cheap going forward. I think our margins there will slip some, but I do think that – I think there's no new capacity being added by anybody. And if anything people are shuttering capacity like we are, and so there's not a lot of options there, other than the consumer not to buy the product. And given the pricing where we're at, pork is priced I think, we're in a good position to be – to continue to maintain some good margins in this.

<Q - Robert Moskow>: Okay. Thank you very much.

Operator

And the next question does come from Ken Zaslow with BMO Capital Markets. Please go ahead.

<Q - Kenneth Zaslow>: Hey, good morning everyone.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Kenneth Zaslow>: You said that the industry needs to cut another 3 to 5%. If the hog producers are starting to make money, what would be the incentive for them to cut the extra 3 to 5%? And how would this emerge, like how does it come about, because we've had this issue a couple times in the last three years?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, I guess, if the sow markets were strong they could sell their pigs, they could sell them for more, and if they continue to – I mean, I will say these farmers continue to have pressure from the banks and Bo might just speak to that better than I can.

I will tell you that I am concerned the pressure is not as severe as it was. However, we still got $4.00 corn out there, and it could be $5.00 corn overnight. If we get some bad plantings next spring, we could have anything to happen around the world, something to happen on the oil market, we could have $5.00 corn and I think farmers have learned that while their cost structure today might look like they can make money, I don't think very many of them have taken hedged positions with their input costs.

And so I think they're fully exposed in large measure to these grain markets. So if something happens on the grain markets, they'd be right back in the soup. And I don't think the pressure is as much as it was, but I do think there are people who at least, I am hearing a little bit more of this now that there are people who are simply saying, I am not going to stay in this business. I am going to be in a different business. Now I wish I could tell you big numbers.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: And I think, Larry, to some degree there is a fairly substantial portion of the industry that has been able to survive over the past year because of the good graces of their bankers. And that while they may be able to return to some level of profitability, I think that their banker is going to say you need to get your balance sheet well before we're going to provide you with more capital to expand.

So I think that we have been living under the influence of the banking community and their desire to keep a number of these smaller producers in business and not have to take over the farms. I think they're going to be reluctant to provide lots of capital to have a rapid expansion.

<Q - Kenneth Zaslow>: Do you think your balance sheet is where it needs to be? And I'm assuming your appetite for anymore capital raises is done, is that a fair assessment?

<A - C. Larry Pope, President and Chief Executive Officer>: That is a fair assessment. I think, we told you when we did the common stock equity offering in September that our capital market transactions were done.

<Q - Kenneth Zaslow>: Great. Thank you.

Operator

And the next question comes from Akshay Jagdale with KeyBanc. Please go ahead.

<Q - Akshay Jagdale>: Good morning. Bo, can you just talk about the cash flow a little bit for this quarter. There's nothing in the press release, but what was cash flow from operations this quarter?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: It's been a 120 million year-to-date.

<Q - Akshay Jagdale>: And just, Larry, if I hear what you're saying on the Hog Production side, I just want to make sure I am getting what you said which is, you think Hog Production profitability will be below normalized next couple of years; is that correct?

<A - C. Larry Pope, President and Chief Executive Officer>: That is what I said.

<Q - Akshay Jagdale>: Okay. And historically, when I look at your hedging practices, and I know you've changed your disclosure there, but typically, you've been more active in the market on the grain side. And I think part of that is because the market is not as liquid on the hog side. But can you just talk about the opportunities that exist to capture

some of the favorable market conditions that futures are showing?

<A - C. Larry Pope, President and Chief Executive Officer>: They're there. That's as simple as I can say it. There are opportunities to capture the margin. So that's and as you know, we are generally astute with the futures market. I can't say we did such a great job on $6.00 corn. But generally we have been pretty good on that, and I think that the only thing I would leave you from this call is say we won't, we won't miss this opportunity. How about that?

<Q - Akshay Jagdale>: That's great. And one last one. Bo, on the pension side, I think you mentioned that you're reducing or your estimate for pension contributions is coming down, can you just explain why that is the case?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Those were changes in actuarial values that the government required and they just said you need to put in less cash, recognizing that that was a very, very sensitive subject with many companies, as the value of their portfolios declined and they had a bigger delta they had to try to make up in terms of short falls of their pension plans.

<A - C. Larry Pope, President and Chief Executive Officer>: So, we're just complying with some modification. The government has given some relaxed funding rules and we are simply taking advantage of those.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: We haven't done anything brilliant compared to the rest of the industry is just take advantage of what opportunities we had.

<Q - Akshay Jagdale>: Okay. That's helpful. Thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: You're welcome.

Operator

The next question comes from Tim Ramey with D. A. Davidson. Please go ahead.

<Q - Timothy Ramey>: Good morning. Thanks.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Good morning.

<Q - Timothy Ramey>: Larry, you state in the press release, you've never been more positive about the earnings power of the company. And you know, I too am looking for a profit in the second half. But earnings power is a pretty powerful statement, you know, given that you've suffered a lot of dilution in the equity; you've significantly raised your interest expense bogie. You've, you know, cut management bonuses to a point that's probably not sustainable over the long term. What would make you confident to say that the earnings power of the company is at its greatest level?

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you for asking that question. You couldn't have teed that up better if I had been able to feed you the question. And incidentally for the rest of callers on this call, I did not give him that question.

<Q - Timothy Ramey>: If he did, I wouldn't have asked it.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I'll remember that one.

<A - C. Larry Pope, President and Chief Executive Officer>: But the point is, what excites me is that, we have been trying to focus for several years in redirecting this company away from a commodity-based play on the grains and the hog markets and simply pushing meat out the door, fresh and processed. And now, we have in fact, you see I have changed the language to packaged meats even away from processed meats. It probably should be processed and packaged meats, but the fact is the opportunities for us from a margin standpoint, we've been selling too cheap, and we have made so many acquisitions that we had not gotten our plant operating cost structures where they needed to be.

We have made an enormous effort towards that and that effort is starting to show up on the profit that's showing up in the Pork group. And I think if you'll go back and track the profitability in the Pork group and then subdivide that which you've not been able to do into the Packaged Meats, you would see this is an earnings stream has been going straight

up.

Now, Bo has only been successful these last two quarters in breaking out fresh versus Packaged Meats. But I assure you this has been an upward sloping line in a big, big way. And we still haven't gotten it all. And finally, we haven't yet begun to talk to the consumer in any significant way.

Many people buy our products because they're the cheapest one in the store. I wish I could say people go in and buy Smithfield products because it has got our brand name on it and it has got pull associated with it. We've only got a minor amount of pull. We're going to convert this company now to have more pull associated with that. And I think given the cost structure we got for that we're very good manufacturers now. I think the opportunity for margin improvement beyond where we're even at is still very significant. It's going to be slow and it is going to be continual, and I'm just telling you those of you on the call.

And so I think, yes, we have issued and I guess now Bo we're about 166 million shares or something like that. So we have created the dilution and I had this exact thought process, when we started doing that that this is really creating dilution and I said then, I'll take the dilution because the earnings power of this company is such that I believe we're changing us to the point that that dilution will be easily covered as we go forward.

Now, I want to make one final point. Our interest cost is up. I don't like that. Although we had cheap money before, we have got what I'll call expensive money today. As we improve this bottom line and Bo is successful at de-leveraging this company which he continues to be pushing me and I'm committed to do, we will see the banks come our direction. We've got to return to profitability. And as we do, these banks will loan us money, our credit ratings will improve again, our spreads will come down, and our interest costs will come down. I'm counting on that.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think the exciting thing from my perspective is being able to match a financial strategy that Larry just described as far as de-leveraging the business and improving in ROIC and matching that with the improvements Larry talked about on an operating basis. So I think we're able to follow both parallel track in terms of improving the overall financial stability as a company as well as the operating capabilities and ultimately lower our cost of capital.

Keira L. Ullrich, Director of Investor Relations and Corporate Communications

Operator, we're going to have to end the call here and turn it back over to Larry for some closing remarks, please.

Operator

Thank you. Please go ahead.

C. Larry Pope, President and Chief Executive Officer

Well, thank you for listening this morning and I know that we've sort of disappointed this management team with quarter after quarter of losses and I can assure you, it's no fun here in Smithfield to be incurring those on a weekly basis and reporting them to you. This has been a challenging period for this company. I do think the challenge period is coming to a close. I think that the management team that I'm lucky enough to be associated with has done an enormously good job on a number of fronts, and many of you have commented about that. I want to follow on to where I just was. I think that this Packaged Meats business we're going to at least get your attention towards that, which we seem to have a difficult time doing. I appreciate the fact that this morning we didn't spend the entire call talking about the corn markets and the hog markets, that you see there's something else to Smithfield beyond that.

We are building a platform here that I believe is very strong and not yet complete but getting close and then we are going to turn our attention towards paying- being more forward in our marketing campaigns and I think that's sort of is the next phase of this company. It will be a multiyear phase, but I can assure you we are going that direction which I

think will drive these margins once again.

Thank you very much for listening and thank you for your support for the company. We hope we don't disappoint you.

Operator

Thank you. Ladies and gentlemen this conference will be made available for replay after 11:00 A.M. Eastern time today until December 24th at midnight. And you may access the AT&T executive play back service at anytime by dialing 1-800-475-6701 and entering the access code 125373. International participants may dial 1-320-365-3844. Again those numbers are 1-800-475-6701, international participants 1-320-365-3844 and entering the access code 125373. This does conclude our conference for today.

Thank you for your participation and for using AT&T Executive TeleConference. And you may now disconnect.

Exhibit D

Company Name: Smithfield Foods
Company Ticker: SFD US
Date: 2010-03-11
Event Description: Q3 2010 Earnings Call

Market Cap: N.A.
Current PX: N.A.
YTD Change($): N.A.
YTD Change(%): N.A.

Bloomberg Estimates - EPS
Current Quarter: 0.823
Current Year: 2.636
Bloomberg Estimates - Sales
Current Quarter: 3587.667
Current Year: 13695.750

Q3 2010 Earnings Call

Company Participants

- Keira Ullrich, Director of Investor Relations
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, IV, Executive Vice President and Chief Financial Officer
- Richard Poulson

Other Participants

- Christina McGlone
- Kenneth Goldman
- Gregory Van Winkle
- Farha Aslam
- Christine McCracken
- Akshay Jagdale
- Robert Moskow
- Kenneth Zaslow

MANAGEMENT DISCUSSION SECTION

Operator

Thank you, ladies and gentlemen for standing by. Welcome to the Smithfield Foods Third Quarter Fiscal 2010. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, instructions will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

I will now turn the conference over to our host, Keira Ullrich. Please go ahead.

Keira Ullrich, Director of Investor Relations

Good morning. Welcome to the conference call to discuss Smithfield Foods third quarter fiscal 2010 results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of Federal Securities Laws.

In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2009. You can access the 10-K and our press release on our website at smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; Bo Manly, Chief Financial Officer and Dick Poulson, Executive Vice President. This is Keira Ullrich, Director of Investor Relations.

In order to provide the opportunity to as many analysts as possible to ask questions during the Q&A session later in our call, we request that you only ask one question. If you have another question, please get back in the queue.

Larry Pope will begin our call this morning with a review of operations. Larry?

C. Larry Pope, President and Chief Executive Officer

Thank you very much, Keira, and thank you, ladies and gentlemen, for joining the call. I am pleased this morning to come before you announcing that Smithfield Foods has returned to profitability.

It has been a very tough two years.

For the third quarter we're reporting income from continuing operations of 37.3 million or $0.22 a share compared with a loss of 108.1 million or $0.75 a share last year in the third quarter. On a year-to-date basis we got a $96.8 million loss or $0.63 compared with 169.7, $1.21 loss at the first nine months of last year.

I hope you took note of the fact that we outlined several non-recurring items as part of the press release. They all net to zero, but as we discuss those in the narrative, they're important for your understanding and so we provided a table to give you that understanding, realizing that the top and the bottom are the same numbers, but to not be confusing.

It looks like the cycle in hog production has turned. We have been through a long period of prolonged losses in the live production side of the business; we've been talking about that for a long, long time. We have – we are seeing a period in which our costs are going down and our hog prices are moving up.

For the quarter as we indicated our average sales prices quarter-to-quarter were up for about 0.04 or $0.05 and our raising costs were down $0.10. That's very good for hog production and we're showing comparative operating results of a $55 million loss compared with 253 million in the third quarter of last year.

So these are very good comparisons, however for the third quarter we were still not at breakeven, $0.44 plus the premium we pay of about 46 compared to 51. We're still under water in the third quarter in terms of raising costs being above sales price, but it is sharply narrowed from the prior two-year period.

And as we are in our fourth quarter, many of you have seen that the hog market has continued to move up from the third quarter levels and as of today we are profitable in our live production side of the business.

I think you all know in our hog raising we have made cuts in our sow herds. We have made more than a 13% reduction. That is flowing through and from that standpoint we think we've improved our operating environment there.

The performance at the farms has been good, I think we've talked about that now for some time. Many in the industry, if not all of us, have had very good performance of the sows and the feed conversions and the livability.

However, I must tell you of recent, the corn crop came in and some of you probably heard about these vomitoxins associated with some of this wet corn and these late harvests. This is having an impact on our operations and I understand from conversations in the industry it is affecting other people in the industry.

That has creeped into our costs at the end of the third quarter and is impacting our cost modestly in the fourth quarter. Mr. Manly will speak about that a little more fully in his comments, but I want to tell you that it is there. We are taking some very stringent efforts to minimize that impact, we are buying a lot more local corn and we're doing a lot more blending, blending that corn in with others in order to lessen the impact as much as we possibly can. However, I want to point out that that will be part of our cost analysis as we go into the fourth quarter, and it will probably be with us until this crop is fed out.

We are continuing to very critically evaluate our live production operations for cost improvements and we have some ideas and a plan that we are beginning to execute. It's fairly detailed, like our restructuring plan on the meat side that we think has a lot of promise. As many of you know in this business, those kinds of things on the live production side don't happen quite as quickly as they do on the meat side, and it will come out over a longer period of time. But I would tell you that we have some thoughts on a pretty good plan that we think will make us much more competitive even on the live production side.

The final note relative to hog production deals with the pending decision that the EPA is evaluating relative to increasing the blending rate for ethanol. That decision, as many of you know, has been delayed and is likely something

will be decided here probably in our fiscal first quarter of next year. I don't expect it in the fourth quarter, and more likely into the first quarter of next year. Anything there probably would adversely impact the corn markets going forward. We are aware of that.

We have taken some protection there, as you know we take advantage of the futures markets regularly to protect ourselves on the input side. I would tell you that we've taken some pretty good measures to there. So I'm not so worried about that on a near-term basis, but the fact that the government would increase the blending rate from 10 to 15% or something approaching that is not good for the input side of this raising business. And while we can get some near-term protection, longer-term protection it's not as easy.

On the fresh meat side of the business if you look at the operating profits you see they're down. However, there are restructuring charges in both of the years that you need to account for there.

I am satisfied with our fresh pork operations and things are just fine there. We have closed, just after the end of the third fiscal quarter at the end o January, we did close the last plant in Smithfield, Virginia, part of our restructuring. That is helping our fresh meat results already in the fourth quarter as the result of that merging of the two plants in Smithfield.

I'm sure you've all seen by now that we've announced the closing of the Sioux City, Iowa plant, which was a very inefficient plant in the Smithfield system. I think we made some pretty open comments about that in the press release we made. It's a decision we have been evaluating for quite some time and was part of the original pork restructuring plan, although we struck that realizing that the fresh pork was really pretty good and that we would continue to operate that plant as long as it made sense.

As we move into tighter hog supplies and higher hog prices, the profitability on fresh pork will certainly be pressured over the near-term and we made the decision that it was the appropriate time now to make the tough decision to close that plant and to substantially what we believe improve our fresh meat results by eliminating a significant amount of commodity fresh pork that that plant has been producing and putting into the open market.

We are on schedule. By the end of April that plant will be closed and we will see – we will be picking up production a bit in our other plants, but a fair amount of that production will cease to exist in the Smithfield system.

So from the fresh pork side, the results are okay and I think going to get significantly better as a result of two fairly significant changes, one that just happened and the other one that will happen in the fourth quarter. So I'm encouraged as I look at the fresh meat business.

You can't talk about fresh pork without talking about exports and I know all of you are interested about what's going on in the export markets. We have – our export numbers are actually pretty good and for the quarter we're about flat with the same quarter last year.

I know a lot of people were talking about exports being down. From Smithfield's standpoint, this is going to be our second best year ever in exports, and that's second only to last year when we had some of the remainder of the carcasses that we shipped into China and we're having our second best year in spite of the fact that the Chinese mainland market has been closed for the entire fiscal year.

Beyond that, many of you know that the Russian market has been closed of recent. I am encouraged on both of those markets. They are both making the proper signals, sending the proper signals and I think our trade representatives are doing a very good job in attempting to get those markets back open. We're pretty active in that area, and I'm optimistic on something in Russia even almost imminently and I am optimistic that something in China will happen before the end of the fourth quarter. I think I made those comments in the press release.

Clearly I don't have the decision-making capacity to make that happen, but I think the signals are correct and I think that the momentum is there to get these markets back open. They do help fresh pork results, they are important to our fresh pork results, given so much of this business that goes out of the country these days. And so given that, combined with what I think we're doing on our two plant operations, I think fresh pork is going forward pretty nicely.

Turning our attention to packaged meats, that's always the highlight of my discussion. We had another very good quarter in our packaged meats business. On a year-to-year basis it looks up about $30 million. Again, you have to account for restructuring charges largely in last year, and on a year-to-year basis, it's actually down a bit, just a touch. As I look at that business with the spike that occurred in the raw material input prices in the second half of the third quarter, I can't say anything, but I'm pleased as punch with the job that these are guys are doing on the packaged meat side of the business.

The restructuring that the company announced, the pork restructuring, is essentially finished. All of the plants have been closed. Inversely, all of the things that needed to be done have been accomplished, except we've got a little computer conversion with SAP in a couple of our operations that's going to be a little more drawn out into the summer.

But that's all that's really left in the pork restructuring; the actual shifting of all the operations has been accomplished on time and on budget. And George Richter and the pork group management teams have done an absolutely stellar job in the face of a very tough year combined with a massive fire at our Patrick Cudahy plant in Milwaukee, Wisconsin. They had to deal with those shifting of products at the very same time, and they deserve some credit for a job well done.

It is benefiting the quarter, not nearly to the extent of the $30 million a quarter we expect on a quarter-to-quarter basis going forward, we got about half of that this quarter. So we're still not at a run rate that's 125 million. However, we have nearly accomplished the $55 million in this fiscal year.

We will clearly meet that number for the year and we fully anticipate that the $125 million will be impacting – in fiscal 2011 we should be getting the full benefits of that.

We did point out the fact that we've lost some volume in our processed meat side; that is true. This is the result of capacity constriction that we did, we reduced it on purpose. We closed a large hotdog and luncheon meat plant in Florida, as well as we have continued to exercise sales discipline. All of the losses, or the vast majority of those were fully planned. We are not surprised by the 7% reduction, in fact we knew that was going to happen, and I think we told you that well in advance that would happen.

I can report to you today that this business is very solid. We are feeling some pressure on margins as we move into the fourth quarter as these higher raw materials work their way through our costing system and prices have to adjust. As you know, we have relationships with customers that are formula-based in some cases and as well just pricing. And when you have a sharp run up in raw material costs, the near-term effect can be downward pressure on your margins. We are focused on this end of the business and I think it is well under control, and so I continue to look forward to that as a very strong area.

We are turning our attention going forward to the sales and marketing effort on that side of the business for top line growth. We've gotten the bottom line, we've gotten our cost in line, we've gotten our capacities right-sized and it's now time to pay attention to the top line. We told you a year ago we were not going to focus on that. We are now focused back on that and there's s a lot of opportunity on the sales and marketing side of this business, and that's where this company is beginning to turn their attention.

Internationally, the numbers looked comparable. There is a $12 million charge in this year's number for refinancing charges in our Campofrio operations. So adjusting for that, our business is very good. Most of the numbers are up, Poland is doing excellent, and beyond that the international hog operations that we look at our international business more holistically from a vertically integrated basis, the hog raising business is doing terrific. That shows up in the – that shows up in our hog production numbers, not in our international numbers, and it is going gangbusters, I couldn't be more pleased. Because of the liquidation that's occurred both in Europe and in Mexico those have resulted in sharply higher live hog prices, and we have seen those operations go from losses last year to very strong profits this year, and I am extremely pleased at what's going on in our raising operations on the international side.

I'll turn it over to Bo, who's got a complete report I think on the financial side, and then I'll give you my view looking forward after Bo's comments. Bo?

Robert W. Manly, IV, Executive Vice President and Chief Financial Officer

Thank you Larry, and good morning, everybody. It is extremely refreshing for me to announce that Smithfield recorded a profitable quarter. I believe we've reached the other side of the longest and deepest down cycle I've experienced in my 30 years in the meat industry. I have comfort that we're on the upside of the cycle.

The CapEx and one-time expenses of restructuring are largely behind us and the benefits have begun to fall to the bottom line, particularly in packaged meats. The improvements made to the Smithfield Virginia plant in the last quarter, coupled with the closure of the Sioux City fresh meat plant in April will improve the dynamics of our fresh meat business on the East Coast and Midwest.

Our international meat businesses are profitable and improving. Our overseas hog production companies and joint ventures were solidly profitable. Butterball and turkey operations have reversed prior year losses and losses in domestic hog operations decreased significantly. But we're still in choppy water and, however, as we look at forward markets, it does appear that the wind is no longer in our face.

Before I get to the body of my comments I would like to first cover housekeeping issues for the quarter. Last year's third quarter contained 14 weeks, impacting quarter-over-quarter volume comparisons by 7%. Pork group restructuring charges in the quarter were $4 million and 85 million in the same quarter a year ago.

The announced closure of our Sioux City, Iowa fresh meat plant resulted in a $13 million charge for the quarter. Finally, equity income in affiliates reflects a $12 million refinancing and other one-time charges flowing from Campofrio.

Total company sales decreased 14% for both the third quarter and nine months year-to-date compared to the same periods a year ago. The extra week in the third quarter of last year accounts for half of the quarterly sales decline and almost 20% of the nine month sales shortfall.

When adjusted for the extra week, volume declined in both fresh pork and packaged meats for the quarter by 7%. The nine month year-to-date packaged meats volume fell a similar 7%, while fresh pork volume declined 6% compared to period a year ago. This reflects marginally less live animal availability and efforts to rationalize sales and forego lower margin fresh meat and packaged meats business.

International sales were up 3% for the quarter with lower prices driving a 19% volume increase. For the first nine months, however, large negative currency changes reduced international sales by over 260 million. This offset a 14% volume increase and resulted in a net decline of 14% in sales compared to the same nine months a year ago. Quarterly and year-to-date tonnage increases were driven by gains at Animex in Poland.

Third party sales in hog production are beginning to reflect fewer pounds sold due to the trimming of our herds. Adjusted for the extra week, domestic tonnage was down 3% and 4% compared to the prior quarter and nine months, respectively. Declines in sales in the Other segment reflect lower turkey output and sales of our remaining cattle inventory a year ago.

Our consolidated third quarter operating profit was $97 million compared to a loss of $136 million a year ago and an improvement of $95 million compared to our second quarter. The year-over-year quarterly improvement of $232 million was driven by continued strong performance in the pork group and a $198 million turnaround in hog production. Hog production results a year ago represented the low point in our hog production financial cycle.

Pork segment profits for the third quarter and first nine months show improvement of 23 million and $143 million, respectively. These results are before restructuring and 14th week adjustments. Restructuring and plant closure charges for the recent third quarter were 17 million and 85 million in Q3 of fiscal 2009. After restructuring, the Sioux City charges and the 14th week adjustment, pork segment operating profit actually declined 29 million to an adjusted $170 million for the quarter and an increase of $99 million for the first nine months to an adjusted operating profit of $454 million.

The decline in quarter-over-quarter profits in the pork segment is due in large part to rising pig prices squeezing margins. While the profit decline is disappointing, we are very pleased that packaged meats margins were maintained at $0.18 per pound in the third quarter compared to an adjusted $0.19 per pound in the third quarter a year ago.

International segment operating profits declined $1 million quarter-over-quarter impacted by $12 million in Campofrio debt restructuring, and discontinued operations charges, offsetting profits of seven million and improved profitability in Animex. Year-over-year improved nine months performance was driven by Animex results. Absent charges in Campofrio, all international operations led by Animex performance were profitable, except for Romania. However, overall integrated results in Romania to include farms were profitable.

The 198 million quarter-over-quarter lower losses in the hog production segment represents the combined improvement of live hog markets rising from $40 per hundredweight to $44 and a decrease in cost from $61 per hundredweight to $51. These costs are net of interest.

Nine months year-to-date have declined from $61 per hundredweight a year ago to $54 this year. Year-over-year volume with the 14th week adjustment in the third quarter declined 3% from 4.8 million head produced last year to 4.6 million head this year. Our domestic hog production efficiencies have improved year-over-year, as has overall efficiencies for the swine production industry.

Our hog raising costs, particularly in the East Coast, will likely be negatively impacted in our upcoming fourth quarter by $0.01 or so due to poor grain quality in the Eastern corn belt. International swine operations in Poland, Romania and Mexico moved from a loss to solid profits with $98 million in improved profitability in the current nine months compared to a year ago.

The Other segment improved operating profits reflects improvement in turkey operations on a quarterly and year-to-date basis compared to the same periods a year ago, and finally the sell-off of our cattle inventories.

The corporate segment reflects greater performance compensation in the third quarter compared to the prior period. While nine months year-to-date results also reflect increased performance compensation, but this was more than offset by significant gains in life insurance valuations compared to losses in valuations in the prior year.

SG&A expenses decreased $8 million in the third quarter of fiscal 2010 and 44 million for the nine months compared to the period a year ago. Expense improvements were driven by the impact of restructuring, Romanian subsidies, lower legal expenses, timing of marketing and promotional activities and the extra week.

Interest expenses increased for the quarter and year-to-date are associated with our new borrowings. We estimate a full year fiscal 2010 interest expense of 265 million. Today, the full year interest expense estimate for fiscal 2011 is 255 million.

Our equity investments in affiliates demonstrated an improvement in the quarter just ended of $24 million compared to the same period a year ago. For nine months year-to-date the improvement totaled 72 million. With the exception of the impact of charges within Campofrio mentioned earlier all investments, Butterball, Campofrio and our two Mexican joint ventures were profitable, and showed improved performance for the quarter and year-to-date compared to prior periods a year ago.

Depreciation and amortization for the quarter just ended totaled $58 million and $178 million for the nine months. This compares to 70 million and 207 million in the same periods a year ago. Depreciation is down from prior periods due to historically low capital expenditure rates in the last two years, as well as write-offs of assets associated with corporate restructuring and farm closures. We project full-year depreciation for both fiscal 2010 and 2011 to be $240 million each year.

We continue to maintain a high level of discipline around capital expenditures with total spending of 38 million for the quarter just ended and 136 million for the nine months ended in January. With projects already in the pipeline, we continue to anticipate CapEx for the fiscal year to fall below 200 million, equivalent with spending last year, and well below current depreciation levels. We expect capital expenditures to move to levels equivalent with depreciation in the coming fiscal year as more normal earnings levels are achieved.

Our effective tax rate for the third quarter was a negative 27%, and we project a positive 48% for the full year. For a non-accountant dressed as a CFO, and please, no one comment that the emperor has no clothes, to get back money from Uncle Sam when you've recorded a profit is hard to get my arms around, but suffice it to say that favorable tax treatment on foreign income, catch-up timing and true ups for prior tax periods can result in a negative tax rate in a quarter with a low level of profitability within a full year period of loss.

Smithfield expended a great deal of time and energy during the past 18 months strengthening our balance sheet. Our goal is to continue to reduce debt. Debt, net of cash, at the end of the third quarter stood at $2.602 billion, down 185 million since the beginning of the fiscal year, as well as a reduction of $1.224 billion net of cash since the beginning of fiscal 2009.

Our debt to capitalization ratio at quarter-end remained at 51%, steady with the end of the second quarter, but down from 53% at the beginning of the fiscal year. Net of cash, our debt-to-capitalization ratio at the end of the third quarter remained flat with Q2 at 47%, but down for the last nine months from 52%.

Liquidity remained strong throughout the quarter. Available cash and ABL facility drawing capabilities were 1.053 billion at quarter end. Total liquidity declined during the quarter 160 million, mostly due to seasonal decreases in borrowing base calculations.

We remain very aware and respectful that we are carrying expensive cash from our earlier equity offering as an insurance policy against the vagaries in the earnings of our hog production segment. Now that we see light at the end of the tunnel, we can begin to turn our available cash to better uses to include more normal CapEx spending levels and potential retirement of bonds if opportunistically priced.

Hedging activities during the quarter resulted in a loss of $9 million principally associated with grain positions. The pork group continues to evaluate the claim associated with the fire in July at the Patrick Cudahy facility. We are working closely with our group of carriers and are confident we will successfully resolve the claim on terms fair to the company.

We continue to provide seamless service to our customers through available capacity at other facilities, albeit with some level of added cost and less than full efficiency. No direct loss from the fire, nor gains from insurance proceeds have impacted our results.

At quarter end, outstanding shares remain at 165,835,632 shares.

In closing, I would like to recap that we have completed our financial restructuring. We're in the final stage of our pork restructuring, and the benefits are hitting the bottom line. We are now looking for more marketing opportunities to grow our top line.

We have downsized our domestic swine production business and are looking at ways to reduce cost and improve efficiencies. Our Butterball turkey operation has move from losses to profits.

Our international operations, packaged meats, fresh meats and swine production demonstrate solid performance and profits as well. We have a lot more work to do in many areas, but our past labors are beginning to bear fruit.

I thank you very much for your time and attention and now back to Larry. Thank you.

C. Larry Pope, President and Chief Executive Officer

Thank you, Bo. I hope you took note of that, Bo gave you an awful lot of information there and I know many of you are interested in some of the numbers to fill in your models and I think we try to provide as much of that as we possibly can.

Looking forward, I clearly am more optimistic than I have been in a very long time. As Bo indicated, we have been through a lot of struggles. We have made tough decisions on our hog production operations, which we are continuing to

make more even as we speak. We've made tough decisions relative to plant closings that needed to be done. Those have been accomplished and accomplished successfully. So I feel like that looking forward, we don't have nearly the mountain to climb that we had in the past.

We are experiencing some near-term impact of this inferior corn on our hog raising operations and I believe that our fourth quarter profitability in hog raising will not be as strong as I thought it might have been. Additionally, the cost shift that's associated with this higher priced meat is moving through our processing business, and prices will adjust. I'm not concerned about that, it's just the timing of when those adjustments occur. Fundamentally we have a very sharply improved operating cost environment in this company. In every area of this business, except borrowing cost, our cost structure is improved and continuing to improve.

As Bo said, we are not finished. We fully expect to drive significant cost out of our raising operations even going forward. However, that will not happen in a 12-month period. That will take several years due to the lifecycle and the construction issues associated with changing livestock raising operations.

I believe that we've weathered these two tough years and we're a better company as a result of it. Our discipline relative to capital spending, debt repayment have both improved our liquidity and leverage ratios to the best levels in many years. We have focused on right-sizing our operation, we have for a number of years focused on our packaged meats business and have been fine-tuning our operations overseas by stopping the growth curve, as we saw this wind coming. We are now benefiting from that stopping and fine-tuning those costs which are showing up at the bottom line in our overseas operations.

I believe as these markets return to more historical levels that this company is well-positioned to deliver some very strong earnings going forward. I think you saw in my final comments I made on the outlook in the press release how I am optimistic and how I believe that this is going to benefit us all of this going forward. We do need a little market help here from this, we don't need the ethanol thing to blow up and cause the raising costs on the hog production side to go against us, but outside of that, the management team of this company, and that's not speaking of me, that's speaking on the people who drive this business every day, have done a yeoman's job and I'm extremely pleased with this management team in every area from our corporate people to our IOCs to our international operating people. They have had their nose to the grindstone and they have paid the price and hopefully we are now about to see the real benefits.

With that, Keira, we'd be glad to take any questions anybody might have.

Keira Ullrich, Director of Investor Relations

Thank you, Larry. Operator, please open the line for questions.

Q&A

Operator

[Operator Instructions]. First question comes from the line of Christina McGlone, Deutsche Bank. Please go ahead.

<Q - Christina McGlone>: Thank you. Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Christina McGlone>: Larry, I wanted to get your opinion on demand for pork, now that pork prices have risen so much and the dollar strengthened a bit, are you still seeing strong demand out there?

<A - C. Larry Pope, President and Chief Executive Officer>: I assume you mean in the case of that, I'm not sure whether you're talking about international and export demand or whether you're talking about domestic demand?

<Q - Christina McGlone>: Everything, domestic and international overall.

<A - C. Larry Pope, President and Chief Executive Officer>: [Laughter]. I would tell you that I think demand on the domestic side is flat. Clearly, when you see these prices shoot up like they have in the last not even 45 days, less than that, 30 days, there are impacts in terms of how you get features back. And I think I'd tell you that the food service demand and pricing has about gone flat on us. So the downward decline has stopped. And so I would tell you that pork is still a, in my mind, still a very cheap commodity, particularly things like pork loins, where we have seen the export demand in Japan, which is a big market, has fallen off pretty significantly and that's put a lot of pork loins back in the U.S. market. So pork is really pretty cheap in this country. And so demand is still solid there. Well, it really hasn't ever fallen all that much.

On the export markets, I think the inverse is happening. It has gone up and the dollar. We are seeing some resistance on the export markets, particularly some of the things that we sell like hams, hams have moved up very sharply. And you are seeing some of our markets overseas, who are resisting or outside of the U.S., Mexico is a big market, so that's not really overseas. But those export markets are resisting some of those higher prices and so I think – and I think I predicted this two years ago, that what will happen is that the meat will move up and the first markets that will see the impact will be the export markets because we won't be as competitive.

With that being said, pork is high priced everywhere. It's not cheap in Europe either. So when these customers overseas look for a source of imports, they've got to look somewhere and pork in Europe is higher than it is in the United States. So we're still price-competitive, just not as competitive.

<Q - Christina McGlone>: Okay. And thank you for that. And then can you go over your comments on packaged meats again? I was confused, I think obviously there's going to be pressure on margins because of the pork prices going up, but then you said you've already kind of addressed it or – should we see a sequential fall? I just wanted to get your view again on packaged meat margins?

<A - C. Larry Pope, President and Chief Executive Officer>: I think we could see some decline in the packaged meats margins in this fourth quarter. Let me say again, what I said to you guys last summer and fall, and I think Mr. Manly reiterated that, we had a target in this company of making $0.10 a pound. We are far in excess of that $0.10 a pound and these levels that we're seeing even at $0.10 are far beyond what we dreamed of four years ago. I told you that these margins would decline once these meat prices moved back up. I don't expect, as Bo indicated, we've got margins in the $0.18 a pound operating profit level, I can't expect when these hams move back up and bellies and trimmings move back up significantly, I don't expect them to stay in that $0.18, not in the fourth quarter and not going forward.

But what I do expect, hog production is going to be more profitable. Our fresh pork business is going to be solid and our packaged meats business will probably move, I think we will easily it's safe to say maintain our $0.10 and well above our $0.10. But I don't think we'll maintain $0.18 fourth quarter or next fiscal year. Bo, you have any comment to that?

<A - Robert Manly, IV>: I'd like to say that really the opportunity for us now is more to try to grow the top line, Larry, albeit perhaps at a profit level below that $0.18. I think that's really where we'll drive absolutely the bottom line is by selling more pounds as we come out of the restructuring with a leaner, meaner operating platform.

<A - C. Larry Pope, President and Chief Executive Officer>: From a company standpoint and this is a bigger statement, what I've told our organization is calendar year 2009 was a restructuring year. Calendar year 2010 I'm looking at calendar years, is when we're tweaking the model, that's when we're closing the final plants. We're shutting down Sioux City. We're adjusting our operations to get the cost finally out of all this and get the benefits of the 125. At the same time, we're putting in place the marketing plans so that we're ready and beginning to roll out marketing. And I think you won't see the real benefit of that until calendar year 2011, but I assure you, we're already on it.

It takes time to get those things into place and get those plans developed and out into the customer – into the marketplace and effective. So that's the way, I think 2009 was restructuring, 2010 is tweaking and you may see some margin. You may see a little bit of margin erosion on the processed meat side. But as Bo said and our organization knows clearly, we're going to top line growth now and we're changing some things even in the way of compensation to

account for the fact that this is going to move. We're going to focus on top line or not giving up the bottom line, but we know we've got to get the top line. We know that.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: And we also know that we should have some benefits coming to us as we work through the Patrick Cudahy issues in this coming year, the tremendous fall off in activity there, but plans are to come back strong.

<Q - Christina McGlone>: Great. Thank you very much.

<A - Keira Ullrich, Director of Investor Relations>: You're welcome.

Operator

Question comes from the line of Ken Goldman, JPMorgan. Please go ahead.

<Q - Kenneth Goldman>: Good morning. Larry, given where hog and corn prices and futures are today and given your hedging situation, whatever that is, would you be disappointed if you earn less than $2.00 next year?

<A - C. Larry Pope, President and Chief Executive Officer>: [Laughter]. Would I would be disappointed? Mr. Poulson, that sounded like a prediction. That sounded a lot like a projection, Ken. [Laughter].

<A - Richard Poulson>: Ken gave you his projection, what's yours?

<A - C. Larry Pope, President and Chief Executive Officer>: [Laughter]. Ken, I guess I would tell you that I think that the answer for you from me is, yes, I would be. Now whether I'll make that, I will tell you I have lofty goals in life, so I'm oftentimes disappointed in the world. But I mean I think you're certainly in the right ballpark. As I look at it, but I swear, guys, we got to be careful here because these markets move a lot fast as they have changed, my goodness gracious, the cash market has moved so fast on hogs in the last 30 days, I'm still trying to keep up. So don't take that as $2.00 projection, as a prediction. But I mean I think we have good times in front of us, the numbers we look at today look good.

<Q - Kenneth Goldman>: And then vomitoxin, very quickly, you talked about the negatives, but there's a positive as well in that you get lighter hogs and less pork and higher hog prices across the board. You talked about I think you said it's a penny in cost. But isn't it going to be a bigger benefit overall than it will in costs, or am I thinking about that the wrong way?

<A - C. Larry Pope, President and Chief Executive Officer>: I think it's easiest to figure the cost, I think it's harder to define the benefit. Bo?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I agree with you. You're right in terms of your analysis, there should be less tonnage of fresh pork coming to the market and that is always beneficial. I think we're in a market that is more driven by supplies today than it is demand in terms of the balance of margins. I think the other thing we haven't mentioned here is we have probably the best freezer situation we've ever had.

<A - C. Larry Pope, President and Chief Executive Officer>: Yeah.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: And I can remember in a long, long time. Chicken is down, beef is down, pork is down. We have very, very low levels of bellies, very, very low levels of hams and that will very – that will be supportive as we move forward through this year.

<Q - Kenneth Goldman>: Thanks, gentlemen.

Operator

Question comes from the line of Vincent Andrews, Morgan Stanley. Please go ahead.

<Q - Gregory Van Winkle>: Good morning. This is actually Greg Van Winkle stepping in for Vincent today. You highlighted in your prepared comments that the lean hog curve has made a pretty good run, at the same time the sow slaughter has dropped off pretty substantially in the last month or two of data, and breeding herd productivity seems to be pretty good. And so it seems like maybe the stat is indicating that the herd contraction is not going to be quite as large as a lot of people initially thought it needed to be. So I just wanted to get your take on where you think we are from a herd contraction and supply demand standpoint and how concerned you are about the sustainability of the hog curve?

<A - C. Larry Pope, President and Chief Executive Officer>: Well I would tell you, and Bo can have his own thought, the liquidation has not, we've not have had as much liquidation as I would have hoped we would have had. And I think I've been saying that now for a long time. I still think we need more liquidation, but I will tell you the other side of that, I think liquidation stopped. I don't know, Bo unless you know something, I don't know of any significant liquidation going on, I'm not sure enough was going on before. But I don't know of any going on today. So I wish we still had some more liquidation going on.

But the other side is we've had extraordinarily good performance and there is some pers out there, that has heated up in some areas. We're not experiencing much of that, but there are people who are experiencing that. We have had extraordinarily good performance out there in the herds across this industry. At some point there's going to be disruption in the performance of these animals. But we've had very good numbers and so that could have the same impact as liquidation. This vomitoxin issue that we just talked about, could have the same impact as liquidation. So I think it's hard to predict, these are long-cycle, but I think the hog cycle is going to be okay for a while now. Bo?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think as you pointed, all indications are that there has been some slowdown in sow slaughter, perhaps indicating a movement away from hard liquidation. But I would coach you to look more closely at the slaughter rate as a percentage of the sow inventory rather than absolute numbers compared to last year. I think it's going to be much more relevant as we move into sort of the new territory of highly productive sows, different operating configurations to look at the sow slaughter not compared to a year ago or five years ago, but what is it compared to our sow herd to look at reflections of increases or decreases in productive capacity.

<Q - Gregory Van Winkle>: Okay. Thanks a lot, guys.

Operator

Question then comes from the line of Farha Aslam, Stephens Inc. Please go ahead.

<Q - Farha Aslam>: Hi good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Farha.

<Q - Farha Aslam>: Hey, Larry, with all the changes you're making with your hog operations, could you – and pork operations, could you share with us volume expectations, particularly what you're thinking for the fourth quarter and for 2011 for your fresh pork, your packaged meats and your hog operations?

<A - C. Larry Pope, President and Chief Executive Officer>: I don't know that I have those numbers. Farha, what I would tell you is that, let me help you with a couple of numbers, Bo, and maybe you can do this – Farha, maybe we'll just hold that for five minutes and see if Bo can do some back-of-the-envelope calculations. What I do know that is that we're still on 12 or 13,000 hogs in Sioux City. We will be doing that all the way through the quarter. So that's not going to have any impact on the fresh pork, hog volumes for the rest of the fiscal year, that's going to have the impact starting next fiscal year when it's going to be 13,000 less and I think we'll pick up some of that in our other operations. But I think eight or nine or 10,000 of those a day will disappear from our operations and that represents about 8% of our – 8% of hogs will be down. And that's obvious on the fresh pork side. We are down on the processed meat side, but I think that we will grow the processed meats next year over our current run rate, which is the 7% down. That's not the same thing as a year, but over our fourth quarter run rate I think we will recover. We will recover some of that – so if

you take the fourth quarter run rate and improve that by two or three or 4% next year, I think that's where we'll be. Does that help you?

<Q - Farha Aslam>: Yes. And then and just one follow-up on your – you gave us the margins per pound on your fresh meats. Could give you us the same thing, sorry, on packaged meats, could you do the same thing for fresh meats?

<A - C. Larry Pope, President and Chief Executive Officer>: We don't think about fresh meat in terms of cents per pound. We think about per head, so I think you can do – it's not very complicated, you can do fourth grade math here. We killed 30 million hogs, which is 7.5 million a quarter, real simple, if you look at the $7.5 million in the quarter for operating profits, divide that by 7.5 million head, you get $1.00 a head. That's the real simple math. Now you have to add back $14 million of restructuring, which is the announced closing the Sioux City plant and we calculate about $22 million or approximately $3.00 a head.

<Q - Farha Aslam>: Okay. That's helpful. Thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: You're welcome.

Operator

The next question comes from the line of Christine McCracken, Cleveland Research. Please go ahead.

<Q - Christine McCracken>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Hi, Christine.

<Q - Christine McCracken>: Larry, you talked about the increases we've seen in pork values here, the cut-out has gone up pretty sharply over the last several weeks. I'm wondering, we haven't really seen it show up at the retail shelf. I'm wondering have you had conversations with retailers and when might we see this increase show up to consumers and therefore be able to gauge demand?

<A - C. Larry Pope, President and Chief Executive Officer>: I'll tell you, Christine; I think that the retailers have done very well on pork for a long time here now. I don't think retails have to change. I think margins may decline a bit here. I mean I'm not going to talk about any customers on this phone because they're all good customers. But I have seen some retail pricing that is – there's some nice margins in there for retailers, let's just say that. So as this moves up I think you're going to see retailer margins squeezed a bit and I still don't think you're going to see a lot of retail price changes to the consumer.

Still don't think the consumer is going to see that for a good while. As I say, I think that you're going to see some of the export markets, export opportunities fall off first, then ultimately when we have this meat that we've got that shortfall it will go to retail. But I think we're probably still a good ways away from that, Christine.

<Q - Christine McCracken>: But don't you think, Larry, I mean if you listen to the retailers' conversations around price deflation, obviously they're trying to fight that. I think they would be pretty quick to pick up on higher cost pork as a way to kind of push that top line?

<A - C. Larry Pope, President and Chief Executive Officer>: You mean from their side?

<Q - Christine McCracken>: Yeah. I find hard to believe that they're willing to sacrifice margin completely given – are they covered, is it that you've sold forward a lot product and therefore...

<A - C. Larry Pope, President and Chief Executive Officer>: You know this industry does not do – you know this industry does not do long-term forwards, you know that. So it's not that issue at all. But there's still a lot of meat out there, Christine.

<Q - Christine McCracken>: All right.

<A - C. Larry Pope, President and Chief Executive Officer>: Still a lot of meat and I think some of the meat that's not being sold, the most obvious example there is pork loins. Pork loin pricing is nowhere near where it needs to be from our side because we don't have the Japanese business as the ultimate market. We do anticipate Japan picking up later in this calendar year, we expect that to pick up and that would impact the pork loin market. But that item today is still cheap, even as this cut-out has moved up, pork loins have not moved up proportionately with these hogs. They're still cheap.

<Q - Christine McCracken>: All right. I'll leave it there. Thanks.

<A - C. Larry Pope, President and Chief Executive Officer>: You're welcome.

Operator

Thank you. Your next question comes from the line of Akshay Jagdale, KeyBanc. Please go ahead.

<Q - Akshay Jagdale>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Akshay Jagdale>: Larry, can you just talk a little bit about packaged meats? What is the normal profit level that you expect going forward if it's not $0.10 and what has changed fundamentally in your business since you gave that guidance for $0.10 that now it is more profitable? Can you give us a little bit more insight into that?

<A - C. Larry Pope, President and Chief Executive Officer>: Yeah. I mean when you have real cheap raw material, when you got $30 hogs and low 40s hogs that ends up with very cheap hams and very cheap bellies and you can make some money selling it as a hot dog, bacon and hams. So we made extraordinarily good margins. With that being said, I think we have had a focus in this company I continue to say that and have been saying this now for several years that this organization has changed the mindset. We're disciplined from a sales standpoint.

I think George Richter and the pork group's team have done an extraordinarily good job of getting their cost structures down, so some of the benefit, it's not just pure raising prices. We just can't go out there and raise prices, we've got to drive our costs down and they've done a great job. But I would say it's our manufacturing side, it's restructuring the capacity, it's our strategic sourcing of buying our input materials for the product manufacturer. These guys have done extraordinarily god job and so we've driven our costs down, pushed our margins up, then we've cut off, I think Bo made reference to that, we've cut off some low margin business, it's hurt our sales volumes, we're down 7%, we walked away from unprofitable business, that brings the rest of the business average up.

Now with that being said, I'm not satisfied with losing seven or 8% of all the volume, we want to be a company on the growth side. We've got to now market that. So I think maybe I underestimated the potential that we have from a cost savings and a sales discipline and the numbers have turned out much better than I thought. However, do not plan on 18 and $0.19 a pound going forward in packaged meats. Do not count on that, they will be lower than that. And unless I'm once again surprised they will come down. You agree, Bo?

<Q - Akshay Jagdale>: Okay. So what – is there a number we should look at? If it's not 18 and it's not 10, is it somewhere just in the middle, is that a fair assumption?

<A - C. Larry Pope, President and Chief Executive Officer>: I would tell you it's north of 10 and my number that I would tell you to think about is like 12 to $0.13.

<Q - Akshay Jagdale>: Okay. And one just on the hog production business, I mean you've talked about the cycle turning, but I believe on the last conference call you had said that you don't expect an adequate, and when I say adequate return about $15 a head on this business at least for the next few years. Has your view changed? I mean what is an adequate return, I'm getting to $15 a head based on a 10% return on your capital invested there, but what is a normal or adequate return on that business and when do you think you will be able to get there given the supply and demand dynamics that we see today?

<A - Robert W. Manly, IV>: You're asking some questions that are way more specific, than frankly we would give you. I think your estimation in terms of where the historical numbers and normalized numbers are for the business, were in that 10 to $15 range. When we're going to get there, there's a whole bunch of dynamics that I find very difficult to give you a prediction on that, Akshay.

Going back to some questions that were asked earlier, we're looking as we looked at next year, we've got about a 3% increase in tonnage in our packaged meats in our model. We're looking at about a 2.5% decline in slaughter volumes and about a 5% decline in our hog production volumes. I hope that satisfies, Farha, some of your questions.

<A - Keira Ullrich, Director of Investor Relations>: Operator, we'll take the next question please.

Operator

Yes ma'am. The next question will come from the line of Robert Moskow of Credit Suisse. Please go ahead.

<Q - Robert Moskow>: Hi, thank you and congratulations on a good quarter. I want to know a couple more details about your growth plans, Larry. You've done a great job in rationalizing the business and improving the profitability of packaged meats, but how do you grow packaged meats? It used to be you put a lot of CapEx into precooked items and then I think have kind of improved the value add, but are you going to bid more aggressively for new business with new customers, is it more business with existing customers, is it just leveraging some brands like Armour and Eckridge that maybe were under-leveraged before? Can you give us some kind of a little bit of a roadmap there?

<A - C. Larry Pope, President and Chief Executive Officer>: I would tell you, that's more than a five minute discussion there. I could show you our marketing plan and you wouldn't get through it in a half a day. The fact is that we have taken a – we've taken a strong look at our brands. We've taken those 100 brands that we've rationalized now what we're going to spend marketing dollars to make those brands. Those brands attract consumers. So that when people go into – go into the stores, they go in to buy our product, not just buy a pound of bacon, buy our bacon. Not just to buy a ham, buy our ham. Beyond that is we'll work with our customers, our retail and food service because we oftentimes forget about food service. Food service is a big, big piece of this business and part of our growth is to convince these retailers that our product is better than – carrying our product is better than a private label or somebody else's, sell the regional values of our regional brands, which are extremely good brands in regions of this country.

And so I think that we support those with marketing plans that support the retailers that allow them to make more money as a result of that. I think we have a host of – a host of options. Now again, these things take time and that's why I'm telling you that's a little bit in the future, not today. But I think that we will have, just as we had with the pork group, I think we have a solid plan that's coming together and I think ultimately we got to take market share from somebody else, or either we've got to convince the consumer to buy more pork, and we got to do both of those. And it's going to be profitable. I'll tell you, our one position we're taking is that if we're going to take on new business, it's going to be profitable business. We're not going to take on loss leading business.

<Q - Robert Moskow>: And you talked before that your vision of becoming known as a branded meat processor akin to the Oscar Mayers of the world. What kind of investment are you planning on making in the coming months? Do you need to spend more on people, market research, like do you have to hire branded expertise in order to do this?

<A - C. Larry Pope, President and Chief Executive Officer>: I don't think you're going to see us – I've told people this is going to be an evolution, not a revolution, and you're not going to see us go out and wholesale add a big marketing staff to this organization. That's the way to throw away big money fast. We're not going to do that. But I think we have as we've looked through this organization and we've put together the sales organizations coordinated, we've got a lot talent. We've got a lot of cooperative efforts going on now.

And again, this is an evolution. So I don't think you're going to see a big blast off mostly, I think you're going to see just as we said with the processed meats three years ago, I told you we had a focus in the packaged meats business, we would move it, I'm telling you we have a focus on the top line. This will be an evolutionary process and hopefully over

the next two years I'm talking about the top line growth that's occurring.

<Q - Robert Moskow>: Okay. Thank you very much.

<A - C. Larry Pope, President and Chief Executive Officer>: You're welcome.

Operator

Thank you. Your next question comes from the line of Ken Zaslow, BMO Capital Markets. Please go ahead. Mr. Zaslow, your line is open.

<Q - Kenneth Zaslow>: Can you hear me?

Operator

Yes.

<Q - Kenneth Zaslow>: Great. Good morning, everyone.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: Good morning.

<Q - Kenneth Zaslow>: Through all the years the one question I've never asked is what is the maximum amount of hogs Smithfield can sell forward?

<A - C. Larry Pope, President and Chief Executive Officer>: What kind of a question is that? I'm not sure I understood – you mean what kind of futures position could we take on live...?

<Q - Kenneth Zaslow>: Yeah. I want to understand, there might be a limit to like can you sell all your hogs forward, can you only sell – I mean I don't know what the limits are, I never thought about it, but I was just thinking about it the other day?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think, Ken, in reality you've probably got somewhere around a four to six month window with which there's sufficient liquidity, not necessarily that there are restrictions, but there isn't sufficient liquidity to go out much further than six months in terms of an actual position. You might be able to find people that could do some strange derivative contracts, but using conventional methods you're really limited to about four to six months worth of forward.

<Q - Kenneth Zaslow>: Okay. Earlier in one of the questioners asked, they asked you about the liquidation, you said it was a little bit less than they expected. What do you think the key drivers of the higher hog prices are, and are those drivers set to continue?

<A - Robert W. Manly, IV, Executive Vice President and Chief Financial Officer>: I think key drivers I mentioned before, I don't think it's as much demand as it is supply. And I think that the stage is set with some marginal amounts of production coming through the system from the live animal perspective. I think USDA would project we're going to be down two to 3%. We also are continuing to get benefits by fewer Canadian hogs overhanging our system, as well as fewer hogs in Mexico as well. So North America is going to have less meat available to it and we've got the best position, as mentioned before, in the freezers that we ever have across all proteins. So chicken production and supplies are down, beef production, supplies and inventories are down, that all bodes well for us.

<Q - Kenneth Zaslow>: Okay. And my last question is, China reopening, does that change the growth or net exports to Asia, just again it looks like – would that really change any of the dynamics? Well I think Russia might, the opening of China, will that really do anything? It seems like about 80 or 90% of the hogs, or the pork has gone through Hong Kong, just your perspective on the materiality of China reopening?

<A - C. Larry Pope, President and Chief Executive Officer>: Well the only – and I'll be quick with that, it still represents a net increased opportunity there because of the muscle cuts that could go through the mainland. So yes it does represent an opportunity.

<Q - Kenneth Zaslow>: Great. Thank you very much.

<A - Keira Ullrich, Director of Investor Relations>: Operator, we're going to have to end the call here and I'm going to turn it back over to Larry who will make some closing remarks.

C. Larry Pope, President and Chief Executive Officer

Thank you, Keira, and thank you again. It's refreshing, as Bo said, it makes you feel good to finally be out of talking about losses and losses and talk about profits and talk about the future and talk about the opportunities going forward.

This has been a struggle period for many of you as you've watched us work through these many changes that we've tried to effect. I am pleased with this organization. They have done a good job. I am pleased with where we're at.

We do see our focus beginning to shift towards the top line instead of the bottom line and we are continuing to focus on our live production operations, which we've still got some opportunities there that we need to mine. I am optimistic the recession is reversing and that some of the demand will be coming back.

We see some nice opportunities overseas as these markets open up for us, but they have to open. The only negative is this EPA decision relative to ethanol that could certainly throw a monkey wrench in all of this costing process and we're keeping a close eye into that. And hopefully smarter minds and the science will dictate, but I don't know.

With that being said, I think we've got a good future, a bright future and I'm optimistic and very optimistic about where we are positioned going forward. Thank you very much.

Keira Ullrich, Director of Investor Relations

Thank you, everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

Exhibit E

Q3 2011 Earnings Call

Company Participants

- Keira Lombardo, Director, Investor Relations
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, Chief Financial Officer and Executive Vice President

Other Participants

- Farha Aslam
- Kenneth B. Goldman
- Christine McCracken
- Heather L. Jones
- Diane Geissler
- Christina McGlone
- Kenneth B. Zaslow
- Lindsay Drucker Mann
- Timothy S. Ramey
- Robert B. Moskow
- Ann H. Gurkin
- Micah Kaplan

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for standing by, and welcome to the Smithfield Foods Fiscal 2011 Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. [Operator Instructions] And also as a reminder, today's conference is being recorded.

I would now like to turn the call over to your host, Ms. Keira Lombardo. Please go ahead.

Keira Lombardo, Director, Investor Relations

Good morning. Welcome to the conference call to discuss Smithfield Foods fiscal 2011 third quarter results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of federal securities laws. In light of the risks and uncertainties involved, we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2010. You can access the 10-K and our press release on our Web site at smithfieldfoods.com.

On our call today are Larry Pope, President and Chief Executive Officer; and Bo Manly, Chief Financial Officer. This is Keira Lombardo, Director of Investor Relations.

Larry will begin our call this morning with a review of operations, followed by Bo who will review the company's financial results. Then Larry will provide our outlook for the future, after which the line will be opened for questions.

C. Larry Pope, President and Chief Executive Officer

Thank you very much, Keira, and thank you, ladies and gentlemen, for joining this call. As you can well imagine after reading the information we put out this morning that we're all in a good mood in Smithfield.

I look outside my window and it's a rainy day, and looks to be worse as the day goes along, but from where I'm sitting, the sun is shining and everything appears to be bright. Clearly, we've been through two years of troubled waters and stormy days, but as we sit here today, I think we're now reporting our third straight record quarter for the company.

And as you will hear me say in my future outlook, I am extremely optimistic about where I think this business is going forward. So from where I sit it looks like sunshine, and all I can see is sunshine. I do not see many clouds on the horizon.

In terms of looking at the numbers, I'm going to take these in a little bit of a different order. The Hog Production side of the business still reported a small operating loss for the quarter in spite of the improved live hog prices. As you know, the third quarter is traditionally the weakest quarter of the year for live hog prices, and as you all know with the prices of corn, we showed a very small loss.

Although that's a significant improvement over the prior year, it is still a loss in the Hog Production side of the business. As we have announced earlier, we have a Hog Production cost improvement plan well underway that has been underway now for more than a year that's anticipated to reduce our production costs by $90 million.

We expect to finish out this fiscal year in April with slightly over $30 million of that improvement coming to the bottom line, so we are moving along very nicely on that initiative as well. Many of the one-time charges that would hit the P&L have hit the P&L, and about 40% of the capital expenditures to accomplish this initiative have been spent. So that initiative is moving along just as we expected. In fact, we might be a little bit ahead of schedule on that.

I am fully confident that those changes we need to make on our farms to update the farms will be done, and we will accomplish that $90 million improvement over the next two years.

Secondly, our international business is steady Eddie. We've got goods and bads as we have in most of the quarters. Our Campofrio investment is certainly performing better than it has been, as well as Mexico is going well, and I'll leave that to you in terms of the press release and reading.

The big discussion this morning is clearly our pork – our meat processing group with the pork segment and the fresh pork and the processed meats, and that's where I want to spend my time discussing. We are reporting very strong fresh pork results, just as our competitors have reported, as you've read very recently.

We are seeing cuts outs that for people, Bo and myself who have been in this business for 30 years, we have never seen the cut outs this good for this long. And I'm sure that concerns many of you who are saying, how long can this kind of a trend continue. We'll talk about that as I look forward in my forward-looking comments, but it is extremely good, and every day the numbers continue to be there. The sales continue to be there. The demand is there.

We've got supply and demand in very good balance at this point. I don't see anyone out there looking to build any kind of a big plant over the near-term. I don't see any expansion of any magnitude in the live production side of the business.

There is a shortage, as you well know, around the world. I don't see big expansion around the world, so the near-term prognosis for this fresh pork environment is pretty good. However, we are looking at sharply rising live hog, anticipated sharply rising live hog prices this summer, and clearly that's going to have to be reflected through meat prices to maintain these kinds of margins.

One of the big drivers of this has been the export markets, and I know that's on everyone's' mind on this call is the export business. I can report to you today that our export business for the quarter may be different than you may be thinking. It is up 2% in spite of the fact that we closed the Sioux City plant which did represent about 10% of our kill just about a year ago. We closed the Sioux City plant. So we've got those numbers that we're comparing against. In spite of that, our exports are up.

And for the quarter, what is surprising, even to me, is that 24% of our fresh pork volume went out of the country. That is a big number to us. Countries like Japan, China, Russia, Korea, Canada; they all have double digit increases in export volumes, including some of those even close to triple digit. These are very nice improvements in the export markets for the past quarter, and I know your other question is going to be what does the future look like.

The one country that we're down in is Mexico. Mexico we're down because they're a ham buyer, and we simply didn't have the ham to ship to them. And so we had other places to go with those hams in other countries, but the export markets are extremely good for the company.

In terms of the packaged meats, I hope you recognize the level at which the packaged meats business continues to perform in spite of the fact of substantially higher hogs, substantially higher raw material cost. We have a packaged meats business that I am extremely proud of. I have been talking it seems like now for 100 years, and it's only been four; about the improvement I think this business is making structurally in our cost structure of our processed meats business, as well as the organization, management and sales discipline changes that have been going on inside this organization.

I'm confirming to you once again today, that side of the business is doing very, very well, and in fact I'll talk in my outlook comments about how much opportunity I think there continues to be even there. I am extremely proud of the management team that's running this meat processing group under the leadership of George Richter and the operating managers that are out there. They are working more and closer and better aligned and better disciplined than this company has ever been in my 30 year history.

So from my standpoint, I think the business is performing very well, and I must say that I was thinking as I came in this morning that I believe two years ago today Smithfield was trading at its low point, and the view of the world was coming to an end, and I think we closed on March the 9th of 2009, our stock closed at $5.60.

Last night it closed at $22.75. That's a 306% return to those who had the courage to buy this stock at the bottom. I think if you compare those with our competitors or the S&P or the Dow or the price of oil, you will find out that you would have been better off to buy Smithfield Foods than you would to have bought any of those.

I'm extremely proud of the progress this company has made, and many of you might say well, you should have never gone to $5.60; I totally agree. And I think the stock certainly fell further than it should have fallen. I knew that we had a plan that we could execute, and that's why we had a phrase inside this company, so the joke was you must be present to win, and we needed to do what was important to do to be here.

We knew this plan that we are accomplishing and executing today was there. We knew the management team changes we had made were there. We knew the cost structure improvements that needed to be made were being made.

All of that has been done or most of that, but we'll talk a little later after Bo's comments, but those are now bearing fruit. The sales discipline out there is bearing fruit; the cost structure improvements are improving our margins. Bo will outline those results more specifically, but I'm extremely proud of the way this organization is executing, and I believe that we have even more to come for you, and we'll talk about that.

Before I go any further, Bo, let me turn it over to you, and why don't you give them some details?

Robert W. Manly, Chief Financial Officer and Executive Vice President

Thank you, Larry. Good morning, everyone. I am delighted to report record setting third quarter net earnings of $203 million compared to earnings of $37 million in the third quarter fiscal 2010.

This follows record results in both our prior first and second quarters. EPS for this quarter was $1.21 compared to $0.22 last year. Net earnings for the nine months ending in January were $423 million or $2.53 per share. These are pretty heady numbers, and do need to be viewed in light of several noteworthy adjustment items.

Today's press release provides a bridge describing these adjustments. Most notably, these include the Patrick Cudahy fire settlement for an after-tax profit of $74 million, and a combined loss of $12 million of other items. If these adjustments are applied to our stated earnings, the results are an adjusted non-GAAP net earnings of $141 million, a third quarter earnings record in its own right. This results in an adjusted EPS of $0.84.

We are very pleased with the results and the trajectory of future earnings. To paraphrase a modern philosopher, we are winning.

Consolidated sales were $3.2 billion, up 10% quarter over quarter. All segments exhibited sales growth principally due to higher unit selling prices at all levels of the pork chain, live, fresh and packaged, offsetting 7% lower domestic hog production, and 4% less pork group volume.

The Hog Production volume declines reflects our previous herd reductions, which lowered exposure to grain and commodity swings. Reduced fresh meat volume was primarily due to the closure last April of our Sioux City harvest plant. Declines in packaged meats volume were conscious decisions to cut tonnage of SKUs, which higher raw material costs produced negative margins.

International sales increased 5% with higher volume outweighing slightly lower unit sales prices. The total company gross profits increased 14%, up from 10% in the same quarter a year ago. The improvement was driven by strong fresh meat margins and the hog turnaround.

Consolidated operating profits increased to $373 million. Even after the fire settlement and other adjustments described earlier, our non-GAAP operating profit was approximately $258 million compared to $97 million in operating profit in the third quarter of 2010.

This outstanding record-setting operating performance was led by a $119 million improvement in fresh pork and a $76 million better result in Hog Production. This combined $195 million improvement offset declines in packaged meats operating profit. The fire pickup falls in the corporate segment, and is not reflected in pork group operating profits.

The Hog Production's third quarter operating profit showed a slight loss of $2 million. Though significantly improved compared to the results a year ago, it is down from our profits in our most recent second quarter of $78 million. I mentioned at the time of our last conference call that hog results had turned negative.

Raising costs in the quarter were $52 per 100 weight with the help from grain hedges. This cost level, similar to those of our second quarter. However, ISM live pig prices declined seasonally from $56 in our second quarter to $50 in the third quarter.

Our positions in the forward grain markets will provide the Hog Production group with raising costs in the mid to high 50s in Q4. We anticipate that seasonally higher hog prices this spring and summer should create operating profits in Hog Production into next fiscal year.

The company has lower coverage levels of feed ingredients in our next fiscal year. Based on the futures market, we anticipate raising costs to move into the low to mid 60s. However, the forward grain and futures markets have shown several opportunities to lock in positive feeding margins next year. We find these opportunities attractive, and believe we should be profitable in Hog Production in fiscal 2012, absent any demand or further corn price shocks.

The total pork group operating profits were $255 million with an operating margin of 9%. These results represent an increase in profits of 67%, and a boost in operating margin from 6% in Q3 2010.

The fresh pork operating profits were outstanding at $130 million or $18 per head, reflecting lower hog prices and solid export demand. Packaged meats results declined 12% to $125 million compared to last year, principally due to slightly lower margins and less packaged meats volume.

Seasonally strong third quarter packaged meats margins were $0.16 per pound, only slightly less than last year's outstanding $0.18 margin, and $0.04 higher than our recent second quarter. Raw material prices were up 20% in this third quarter compared to a year ago as measured by the USDA cutout value. During this same period, our packaged

meats prices grew 19%, demonstrating our ability to successfully pass high raw material costs through the chain.

We continue to have very positive outlook on our packaged meats business as we identify profitable opportunities to grow our brand, despite high raw material costs. We've seen double digit growth in branded marinated fresh pork, Kretschmar brand Deli items and Curly's Barbeque.

The benefit of integration and assured availability of raw materials are becoming an increasingly important competitive advantage in times of tight hog supplies.

Fresh pork margins have been two standard deviations above the norm for the past two quarters.

I have seen the ebb and flow of perhaps five hog cycles in over 30 years, and I cannot fully explain this industry profit trend. Fresh pork margins have declined in the past few weeks, and profits will likely revert to the norm, but what is the new norm? It was $2 to $3 per head EBIT. Best guess going forward, perhaps $3 to $7.

International operating profits were fractionally lower quarter-over-quarter. Improvements in Campofrio and Mexico offset declines in Poland and Romania. Lower pig prices in Central Europe hurt feeding results, and overshadowed record operating profits at our Animex packaged meats operations in Poland. The other segment reflects the wind down of our Turkey operations.

The dramatic jump in corporate segment results is in large part due to the $121 million pre-tax fire insurance gain. SG&A rose 13% compared to Q3 2010. This was driven by an increase in incentive compensation, and expiration of certain government incentive programs in Romania.

Equity income of affiliates showed improvements, led by a $12 million turnaround in Campofrio, as well as no more Butterball losses.

Interest expense declined 10% quarter-over-quarter, reflecting debt reductions in our second quarter. We expect interest expense to decline below $55 million in the fourth quarter, benefiting from further debt reductions from our February bond tender.

Interest expense will be approximately $50 million per quarter moving into fiscal 2012, making major strides on our $100 million annual interest expense run rate reduction target. There is a measure of short term pain associated with this interest reduction process.

Our second quarter bond buyback resulted in a $14 million charge to Q3, and the most recent tender will create a similar Q4 one time charge of $71 million for our early extinguishment of debt. Our effective income tax rate for the quarter was 32%, up slightly from 30% in Q2 due to the impact and timing of the fire gain in this quarter. We project our full year rate to be 30% to 31%. Depreciation for the third quarter was $57 million, and capital expenditures were $44 million.

The balance sheet story for this quarter remains debt reduction. Strong cash flow allowed us to retire over $90 million of debt in the last two quarters spread over our 2011, 2013 and 2014 maturities. At quarter end, we had $2.5 billion total debt and a net debt-to-capitalization ratio of 37%, our least leveraged balance sheet in many years. After the February tender, debt dropped to $2.1 billion. Cash utilization in Q4 may cause net debt-to-cap ratio to tick up slightly, but should remain below 40% at fiscal year end.

We are not particularly concerned about the impact on earnings of possible rising interest rates in the short to medium term because all but a minor portion of our long term debt is at fixed interest rates, and we currently borrow little under our variable rate ABL short term facility. At quarter end, we had cash and available liquidity totaling $1.4 billion, of which cash of $450 million was employed in the first weeks of Q4 to execute the bond tender. At the present time, cash and available liquidity remains well in excess of $1 billion.

Our improved financial performance and deleveraging of our balance sheet continued to dramatically improve our credit metrics every quarter. We've had upgrades from both Moody and Fitch rating agencies since we last spoke.

We're working closely with rating agencies to ensure they fully understand the company's new direction, operationally and financially, to drive growth, quality and consistency of earnings. The financial expense and interest rate reduction goal of $100 million, or a decrease of $25 million per quarter, will not be achieved through debt reduction alone.

The last increment must come from reduction in rates and fees on our short term debt. We firmly believe the ABL facility we entered in at our darkest hour in fiscal 2009 can be replaced with a facility with a more accommodating structure, and at more attractive rates due to our significantly improved balance sheet, positive industry fundamentals and company performance. Our current short term facility matures in 17 months. However, we are currently discussing this opportunity with our bankers.

In conclusion, this will be a record year for Smithfield, and our outlook for fiscal 2012 is for another very good year.

Finally, I'd like to thank all of those on this call that joined us in January for our Investor Day program. This day-long event highlighted the strategies and tactics in every major segment of the business.

It provided insight into our branding and marketing initiatives, hedging practices and financial objectives. I hope those that attended or listened to the simulcast believe that it was time well spent. For those who could not, it can be accessed on our Web site.

Thank you for very much for your time and attention, and now back to Larry.

C. Larry Pope, President and Chief Executive Officer

Thank you very much, Bo. Those were some certainly telling comments in virtually every area. I think the financial discipline that's in place in this company is something that we're extremely proud of, and Bo and his team have done an exceptionally good job. And I think as we go through this continued refinancing we will be an even stronger company from a balance sheet standpoint, liquidity, as well as ability to deal with our bankers.

The future I'm sure you're all concerned about. I'm sure many on this call are wondering, well, is this as good as it gets? These look a lot like peak earnings from where you probably sit, and things can only go down from here, so I'm sure that's the question on all of your minds. As Bo said, we're going to have a record year.

We're anticipating a very solid year next year. The big question for all of us is where is corn going, and corn could have an impact on this business as well as the pass through of pricing from higher price hogs.

I think you've probably seen the USDA indication of plantings. We think it's very likely that plantings could equal or even potentially exceed the USDA's estimate. We'll see that a little later, I guess, in the next 30 days, but given where corn prices look for the future, it's certainly very advantageous for farmers to plant corn.

And I guess there's plenty of moisture in the ground in the Midwest, so I wouldn't be at all surprised to see these kinds of record plantings. As well, you can imagine we see the futures market further out. Yes corn looks very high this summer.

As Bo indicated, we've taken some strong positions from a hedging standpoint as we look over the relative near term. As you go farther out, you'll see the futures markets are down substantially from where they are today, and I think that's an indication of where this crop may come in, and that gives us some comfort that may be this corn has potentially peaked.

Related to that, I'm sure you're all aware of all the noise in Washington surrounding ethanol. The only thing we add, it appears that rational heads are now evaluating this issue, and all we ask is that we get a level playing field.

If corn is more valuable in your gas tank than in your stomach, then I guess it will go to make gasoline. But I think these subsidies, their day has come. And I think those in Washington realize that from an economic standpoint we can't afford the cost to fund these subsidies, and that there's a better use and we're paying for it at the grocery store. So we see a lot going on there, and it's all encouraging.

The other piece that's encouraging is the export markets. Yes, we've had good exports. Even given these numbers, there's a lot going on in the export market to be encouraged by. I'm sure you all know that Mexico has announced the reduction and elimination of the tariffs going in they're 50% now, and the other 50% once they're sure the U.S. is going to live to their side of this agreement. As well, Korea has temporarily lifted all of its import tariffs for about 110,000 metric tons, and I think about 60% or 70% of that has either been sold or being sold and produced as we speak going into Korea, which is a big, big, big increase in the volumes going into Korea looking forward.

Finally, I think you all know that China has announced that it's going to reduce the tariffs on a number of products going into that country. While they have not specifically spelled out pork as one of those items, given the price of pork in China at well over $1 a pound, it's very likely I would think that it would be on the short list of commodities that they would want to give some relief, given the concern everyone has about food cost and food riots and food unrest among the people. So all of those represent opportunities for the future that aren't even in these numbers.

So while the exports represented 24% of our volume in this past quarter, I make no projections about where they'll be going forward, except that I certainly don't see the export markets getting worse. If anything, they are getting better, and significantly better.

That bodes well for the pricing power inside the Unites States. Many times we only sell – the export markets represent an umbrella pricing. Smithfield does not dump product into the export markets. We only sell export if we get more money for it than we do in the United States. That is the strategy of this company. And so the reason our export levels are where they're at is because it's more profitable business. It's just that simple.

And we expect that to continue going forward. Hog futures look good. We're not, as Bo said, we're not ignorant of where these markets are, and for many months into the future you've got lean hog futures well over $1, which gives us an opportunity to lock in some very strong pricing on the live hog side. And we're certainly looking at that very, very closely.

Finally from a management standpoint, we this past month have gone through a strategic review of where we are on our meat processing group, and I can tell you as I said on the last call, I've never seen this management team more excited about the future opportunities to improve their cost structure than I have most recently.

In spite of these numbers, in spite of our competitive cost position, we are still not where we need to be. We compare ourselves regularly with our competition, and we see opportunity within our cost structure and within our sales discipline to further improve our margins. Now certainly the industry will go where the industry will go, but we believe that we have significant opportunity to further improve our cost structure in the meat processing group, and our management team all agree with that.

So from my standpoint what the finance group is doing, what the meat processing group is doing from a cost structure, what our Hog Production group is doing in terms of cost improvements on that side of the business, and I could assure you we've focusing on the international business, we think there are substantial upward potential within this earnings stream and ultimately to be reflected in the stock price.

So while we're up 300% from 2009 to 2011, I look forward to reporting to you where we'll be on March the 9th on 2012. I'll look forward to reporting on that.

With that being said, Keira, we'll take questions.

Keira Lombardo, Director, Investor Relations

Thank you, Larry. In order to provide the opportunity to as many analysts as possible to ask questions, we request that you ask only one question. If you have another question, please get back in the queue.

Operator, please open the line for questions.

Q&A

Operator

Certainly. [Operator Instructions] And our first question comes from the line of Farha Aslam with Stephens Inc. Please go ahead.

<Q - Farha Aslam>: Hi, good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Farha Aslam>: Congratulations on a great quarter.

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you very much.

<Q - Farha Aslam>: Question on your packaged meats business. It had some very good results, but I was wondering going forward how much of the higher costs do you think retailers have passed along to consumers? And how do you anticipate the volume holding up with these higher prices going into the summer?

<A - C. Larry Pope, President and Chief Executive Officer>: I think you phrased the question certainly just within the context of the retailers. We also got the food services businesses out there. I don't believe that the retailers have fully passed on these prices. I think their margins were extremely strong, and I think they have felt some of the squeeze associated with that. I think there is some pricing still to go forward. Our retail business is down slightly. Our food service business is flat. Although remember, we've cut our kills back some, so we actually have less meat to sell. So it would be appropriate for the volumes to be down slightly, but I think that the other question becomes they've got more to come.

If $6 and $7 corn is coming through, and $75 live hog prices are going to be this summer, there's another level that's going through. Although, the thing that surprises me is the pricing of the cuts, particularly things like pork bellies and pork butts and ribs where we're seeing extraordinarily good prices, and yet we have still got many of our food service customers who want to increase their volumes as a result of this. Pork is still cheap. On a relative basis, I like to say pork is cheaper than potato chips, so it's still a cheaper product. And so I think that yes, I think there's going to be some price pressure, although we're not getting severe backlash from the retailers. I think they do understand, as we've said for a long time, this $4 corn has got to be priced in, and I think it is now being priced in. Food prices are across the board. I think consumers understand this.

This ethanol policy change is a reaction to that. I think the retailers are going to, and I wouldn't be at all surprised if there was a minor drop in continued volume as consumers just react to something cheaper, although they can't go to beef because they've got high priced beef as well. And yes, there's more chicken. So I guess they could rotate to the other protein chicken to some degree. But I think this pricing has got to go through, whether we like it or the retailers like it. If we're going to have higher priced grains, that's just a reality of food prices. I don't know if that answered your question. That probably didn't, but it's hard to tell. But that's the reality of what has to happen, and we said two years ago had to happen.

Operator

And our next question comes from the line of Ken Goldman with JPMorgan.

<Q - Kenneth B. Goldman>: Bo, it's obviously difficult to model the company without some clarity on hedges, so if you can quantify a bit how much you locked in and for how long? I think that would be helpful. I know you can't give away exact figures, but anything you can assist with beyond what you said in your prepared remarks would be appreciated.

<A - C. Larry Pope, President and Chief Executive Officer>: Ken, the only thing I would tell you is that we have placed – again, we don't give numbers, Ken, except to tell you near term we are not much exposed. We're not highly exposed to the hogs and not highly exposed to the corn. How about that? As we go further and that certainly is this fourth quarter and the first quarter. As you go farther out we haven't taken nearly the positions. And we've taken stronger positions on grain than we have on hogs. I'll tell you that. And the reason being we think there's a higher risk that this corn could run away from us for whatever reason. And we wanted to make sure that if it does run away it doesn't have the same effect it did two years ago.

There's a debate in this organization where the hog prices could even go higher than where they are. In fact, Mr. Manly shares that view pretty clearly with the rest of the management team that even at these prices, the 101 and 102 and such that Mr. Manly believes they could go even substantially higher than that. So we've lessened our hedge position relative to live hogs compared with the grains.

That's why Bo feels more confident about giving you the raising costs than we do about giving you the margin because we think we got a good handle on where our raising costs are going to be. We don't have quite the handle on where our margin's going to be because we've got some exposure from the market to go up. Bo, do you have any comments?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Larry, I think you've encapsulated it fairly well. We certainly do not have a great deal of commodity risk as we look through the balance of this year, and look probably for the first quarter, first third of next year.

Operator

And our next question comes from the line of Christine McCracken with Cleveland Research.

<Q - Christine McCracken>: Morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Morning, Christine.

<Q - Christine McCracken>: Nice quarter. You mentioned, Larry, the outlook for exports as being exceptionally strong, I think, given your current outlook. I'm wondering how much of this is the reduction in competing supplies from other countries? And how much of it is growth in demand? I'm wondering from a competitive supply standpoint we're hearing a lot about some of the disease disruption in some of these countries, how sustainable that might be?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, I think you're clearly talking about SMD in Korea, and that's created this short term shock opportunity, and the U.S. has the product to ship there. That's going to take some time to rebuild that back. We will see. And I think it's our experience that many times all of that supply never does come back and even so, so I think the Korean situation is here for a while. Bo, you think...

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: I think there was also some reports over the past few weeks from the Chinese government of reductions in the Chinese herd in excess of 1% or 2%. And if you look at the relative size of that system being about five times larger than the U.S., you take a couple percent out of China and that's equivalent to 10% here in the United States. So there are some opportunities out there I think that could move in our direction that would be very helpful and supportive of prices.

<A - C. Larry Pope, President and Chief Executive Officer>: So I think the point being that China could be an increase in long term supply.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Right.

<A - C. Larry Pope, President and Chief Executive Officer>: Korea is a short-term supply that we'll have to see over the next two years how much of that really comes back. I think longer term it will represent some portion of increased supply, but Korea will be there on a long-term basis.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: And I think from a supply perspective or competitive supply perspective, we don't see increases coming out of Western Europe in terms of their availability of raw material. And in fact, I think as we move in through this side of their cycle in Europe that higher grain prices will probably decrease hog production in Western Europe slightly over the next 12 months, and they may have less competitive meats in the marketplace against us six months down the road.

<A - C. Larry Pope, President and Chief Executive Officer>: I think the demand is there, and I think we have a recovering world economy. The only question from my standpoint is price. These raw materials have reached some pretty high – pretty high prices, and so you may have a choking of demand simply because people can't afford to buy it.

It's just getting so expensive that they can't afford to buy it, but I think the demand from these export markets is going to be there if we can simply have the supply at a price people can afford to buy it.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: But even in a case like Korea where you have a 20% tariff that's moved off, you don't need to have any changes in prices to have a positive impact on both lower prices for the consumer in Korea, and higher prices for us.

<A - C. Larry Pope, President and Chief Executive Officer>: Well, that's right and then I think – and then China's got like, they've got the two tiered. They've got the VAT and they've got the tariff. So there, I mean, those two together add to something like 23%. China's announced they're going to reduce those. I guess that's what they did before when we got the big carcass order. They haven't said pork yet, and that's not a card you can read very easily. They do what they want to do and, Christine, I'd be a fool to try to predict what the Chinese are going to do. But it all – at $1 market, I mean, there's a lot of pressure to do something. Sure is.

Operator

And our next question comes from the line of Heather Jones with BB&T Capital Markets. Please go ahead.

<Q - Heather L. Jones>: Good morning and great quarter.

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you.

<Q - Heather L. Jones>: Just going back to one of Bo's earlier comments about that fresh pork packing margins are unlikely to stay at current levels, given how strong and you mentioned a new normal of, I believe, $3 to $7 a head. And I guess I'm just trying to get a sense of how quickly you all anticipate reverting to that new norm? And given all of these strong export trends you mentioned, as well as solid domestic demand, what's going to trigger that reversion to the new norm?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Heather, I guess, I don't know. We're not at the new norm yet. We're still well above it, and I can't tell you when that's going to change.

<A - C. Larry Pope, President and Chief Executive Officer>: I could tell you one thing, Heather: $75 hogs this June it's certainly going to be a shock to those numbers, and if pork bellies don't go to $1.50, in fact our trader Don Moose says he thinks at some point he's going to see pork bellies potentially this year trade over $2 a pound, which is an unbelievable number.

It depends on how strong that demand out there from a pricing standpoint, but certainly the raw material is going up. It's going up substantially. What, we closed last night at nearly $64 for hogs, and yet we're projecting over the next 90 days we will be up another 20% from that. I mean, those are big numbers to get the meat prices in the retail and food service to cover that.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: But to answer your timing question, I don't know when.

<Q - Heather L. Jones>: So you're just striking a note of caution because you know it can't stay this way indefinitely, but it's not that you foresee this reversion to that norm over the near-term?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: I don't see it on the horizon, on the foreseeable horizon. We're still going to have – should have good margins but...

<A - C. Larry Pope, President and Chief Executive Officer>: I mean, Heather, we're sitting here today and we're halfway closing in on halfway through our fourth quarter. And I mean we've had very good margins through February and March through today. I mean, we've got double digit margins today.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: It will correct itself over the long run because this type of return on investment would attract capital, would attract expansion, and we'd kill more pigs and drive the margins lower, so it'll either happen by itself or someone's going to build a plant.

<Q - Heather L. Jones>: Okay. All right. Thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: You get two year visibility on that, though. You get to know when somebody's building a plant because they've got to file for a permit and they actually got to build the thing.

Operator

And our next question comes from the line of Diane Geissler with CLSA.

<A - C. Larry Pope, President and Chief Executive Officer>: And by the way, we're not going to build a new plant to expand capacity.

<Q - Diane Geissler>: Good morning, Larry. Thank you for underscoring that. Let me ask a question on your packaged meat business. You guys have been breaking out the profitability there, I guess, for the past couple fiscal years. Can you just – there are just a lot moving parts there that business did so much better than what I had been modeling. I think there's probably a seasonal component that looks like January is your peak quarter in margins in that business, but can you talk about what are the puts and takes as we look into the fourth quarter and beyond? I mean, you've got the restructuring that you've done. You certainly have higher input costs. You've got prices moving up at retail. What should we look for in terms of overall profitability in the fourth quarter and beyond and how that will flow quarter-by-quarter based on your current viewpoint?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, Diane, I think that this is part of a continuing trend that continues, gosh, going back four years. You're right. There are a lot of moving parts here, but the fundamental you should take on this that we are continuing to drive down our costs. You should take that. That's number one. Number two, we are having a much more disciplined approach in our sales efforts.

Our sales organization, we have had too much for too long of customers who simply are helping us pay the overhead. And as we have limited capacity in many of the product categories, we simply are trimming off customers who we simply don't make anything on their business. We're not trying to rob any customers. We're certainly not priced above anybody else in the marketplace. We know we have to be highly competitive out there with our competition. We can't rob our customers. They are our customers, and we're aligned with them, and hopefully they're aligned with us. We have to be fair with them.

But we can't be in the business of not having any contribution. This industry hasn't had the money to build and expand and modernize like it needs to, and we need to have some returns in here that allow us to invest from a food safety and a plant and an efficiency standpoint to keep our costs in line. And I think that's what we're doing. We're looking at our customer base and we're saying, where are our good customers and who are those we want to be in line with on a long-term basis? We're building relationships with those folks. And I think they appreciate that, and what we're doing is eliminating those customers who do not help us go forward with this company.

It's not – it's hard to show you in each and every quarter except that the numbers always improve, and I will tell you we've made a decision from a company standpoint. We're going to spend some capital expenditures that are going to further improve us from our bacon slicing operations through our dried sausage operations through our fresh pork operations. There's equipment out there that can substantially improve the way we produce this product, and further drive our costs down. So it's much more cost driven than it is sales price to our customers. We're not trying – we understand it's difficult in this environment to pass it on to customers. So it's incumbent upon us to drive down our costs, and structurally make this a much more competitive platform.

So I think you ought to take away from this something that I said in my future outlook is that we believe there is substantial opportunity still within this packaged meats business to further drive down these costs. Again, I haven't announced any numbers at this point to the market, but they're numbers I think you'd be impressed with.

<Q - Diane Geissler>: You have given estimates as to what you think the restructuring in that group should mean over the longer-term. Can you just give us some idea about what you think you're going to capture in '11 and then as you head into fiscal '12? I think your total savings in that unit is going to be 125. Is that...

<A - C. Larry Pope, President and Chief Executive Officer>: Diane, we're past that 125.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Diane, I believe you were at our Investor Day, and I think consistent with the information that we passed to you folks at that point in time, we still believe that $0.10 to $0.15 margin range is our normalized area. You're right in terms of the observation that the third quarter is typically our strongest from a packaged meats margin perspective.

I doubt that we would be able to maintain 9% packaged meats margin percentage as we move into the next quarter, but we feel very comfortable with that normalized range. The one thing, Larry, also I think would be good to mention is that the consolidation of our sales activities amongst all the IOCs really now allows us to effectively change our product mix as we go forward into the marketplace so we can identify those low margin items collectively across all these IOCs, and make decisions consciously to say, do we want that business or not.

And if not, where are we going to take that raw material volume? How can we sell it for more money, that same pound of meat for more money going forward? That's really the key, but we're going to stick to our guidance in terms of $0.10 to $0.15.

Operator

And our next question comes from the line of Christine McGlone with Deutsche Bank. Please go ahead.

<Q - Christina McGlone>: Good morning.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Christina McGlone>: I guess on the hog production side, Larry, you said you're not seeing any expansion in the industry. And I'm curious with forward margins being profitable, what are the restraints or the concerns out there that you think is preventing this expansion? Or do you think eventually it'll happen?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: It is very difficult, Christine, to stand in the face of economics. However, we do have a situation today where we believe that the banking community is adding a great deal of common sense to the economics of our industry, and saying, folks, if you're going to even be in the business you need to now have risk management programs that many farmers didn't have before. That's taken capital out of the system, and I think that it's going to require more money to get into this business, and maintain in this business than the financial community has ever required before.

So I think that that's acting as a natural break to any potential expansion. And you have increasing environment issues, social issues that are impacting where and how you could expand within the Unites States. So we don't see anything on the horizon, and frankly, that's one of the things we think why there's a great balance between fresh meat and the live production side of the business is that no one's really probably going to step out and build a new plant unless they were assured sources of supplies of raw material. And basically that would be very difficult to make possible today.

<A - C. Larry Pope, President and Chief Executive Officer>: I mean, there still continues to be that option, that corn could spike up at any point in time as a result of some drought conditions, if the Chinese were to come into the market and try to buy large quantities in the world markets. I think farmers are more cautious. They're more aware of the dynamics of corn, and I think that has a huge – I mean, I think that sends shivers down people's backs when they think about that we got $6 and $7. We got a little bit of a profit. A little bit. A little bit.

Corn could spike, Bo, to $8, $9. In fact, many countries are paying that, are paying that for corn. So I think that gives everybody pause. And when they go to their banker and their bankers, say, wait a minute guys. I don't know about this expansion idea. I think that's a big, big, big hurdle for anybody to get over emotionally and mentally and then to find the money to do it.

Operator

Thank you. And our next question comes from the line of Ken Zaslow with BMO Capital Markets. Please go ahead.

<Q - Kenneth B. Zaslow>: Hey, good morning, everyone.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning.

<Q - Kenneth B. Zaslow>: Larry, you said a very interesting thing about China, and I just wanted to make sure I understood you because I thought that could be a very interesting opportunity if I heard you right. Are you thinking that if they reduce the tariff on imports is it going to be for muscle or for offal?

<A - C. Larry Pope, President and Chief Executive Officer>: Well, it'll be for – that's a complicated little question there.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: But probably muscle.

<Q - Kenneth B. Zaslow>: Sorry, isn't there a big difference between – if you get muscle in there, that's I wouldn't say a game changer, but if...

<A - C. Larry Pope, President and Chief Executive Officer>: It is. That's right. I mean – you're aware that a lot of offals already go into China today from everybody in the world. And so changing something there probably would not have a big impact on the offals. The big impact would be whether muscle meat would go in there, and that would take product off the domestic market here. It could change the pricing of the raw material back in the United States.

And I think that's what we think could happen. I mean, that's a realistic possibility. I think with this discussion that China's having with the world on import tariffs I think it's a very real issue.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Ken, it's all about muscle meat because right now the massive quantities of offal that are moving to Asia are typically going through that little hole in the wall called Hong Kong, and Hong Kong doesn't have the tariff structure that mainland China does. And what happens from there we don't know. So probably there is – there already is low tariff opportunities to buy offal in China. So it's really all about muscle meat.

<A - C. Larry Pope, President and Chief Executive Officer>: That's what it was before when the big carcass orders came in whatever year that was, 2007, '08.

Operator

And our next question comes from the line of Lindsay Drucker Mann with Goldman Sachs. Please go ahead.

<Q - Lindsay Drucker Mann>: Hey, good morning, everyone.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Lindsay.

<Q - Lindsay Drucker Mann>: Just back to the fresh meats side of the business. Is there a particular, I know we're in unchartered territory here, but do you think about a level of cutout margin and dropped credit where you would expect the positive economics to inspire more double shifting or some plant openings? I mean, how high do we think this can go before some healthy competition starts to creep in?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Got to find the hogs. There isn't anybody out there, any packer that's going to do it without finding the hogs or they already would have done it.

<A - C. Larry Pope, President and Chief Executive Officer>: Well, they could very easily today, Lindsay. They can run their plants on Saturday. The industry has not been running big kill levels on Saturdays, so that's an immediate increasing in production simply by running plants on Saturdays. We're not. Many in the industry are not running Saturdays, so we're not pressuring the hog markets.

And as Bo says, if we pressure the hog markets it's going to send the hog markets already anticipated to be in the mid 70s, it's going to send them through the roof and we'll all be short of hogs. In fact, we're still looking at some spots. There are holes where we won't be able to fill up the kill in the East Coast. We're having trouble getting enough hogs to run five days a week right now at any price.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: The reality is right now we're probably running 15% less capacity utilization in fresh meat today as an industry compared to where it was three years ago and two years ago.

<A - C. Larry Pope, President and Chief Executive Officer>: Quite right.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: We had been 390,000 head kills on Saturdays, and we're lucky if we get much over 100.

<A - C. Larry Pope, President and Chief Executive Officer>: And we're not hearing any real talk about anybody building a new plant to add capacity. I'm not hearing it – Triumph is the only discussion you ever hear about, and I mean that's sort of us talking to ourselves, but even that, that's a ways off even if it happened.

Operator

And our next question comes from the line of Tim Ramey with D.A. Davidson. Please go ahead.

<Q - Timothy S. Ramey>: Good morning, guys. Congratulations on a great quarter.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Thanks, Tim.

<Q - Timothy S. Ramey>: I'm wondering if – I'm not sure if you could really say anything about it, but the change on the board with COFCO's representative, Mr. Ning stepping down means anything about your relationship in China and your ability to sell into China? It just struck me as odd that even if his commitments are great there wouldn't have been another representative named.

<A - C. Larry Pope, President and Chief Executive Officer>: Let me take that question. Obviously, you saw the press release yesterday. We have been – Frank has been struggling ever since COFCO became a significant shareholder. He's been struggling to make the board meetings. It's a very long travel for him, and that's only one piece of it.

Certainly, we were hopeful and they were hopeful that the relationship between Smithfield and COFCO might foster something very large between the two companies. We have different goals in terms of what we want to accomplish between what the Chinese want to accomplish with a U.S. relationship and what the U.S. wants to accomplish with a Chinese relationship. We've not been able to fully reconcile that between the two of us, and so that I would tell you there was no hard feelings between the two of us. I spoke to Frank, very nice conversation on Friday. Frank and I have a very good relationship.

We – it just hasn't worked out like that they thought it would, and it's not worth Frank flying halfway around the world when he's got a $140 million, $150 million investment. Frank is an extremely busy guy, and it's simply not worth them making the travel to our Board meetings. And so it made sense and we were going to put in a comprising situation. They did not propose – Frank did not propose another member to our Board. And so while – and we've got a good relationship today. We're talking to COFCO. In fact, our sales people are probably talking to COFCO today. So it's not like we have severed a relationship with them.

It hasn't worked out the best, I will tell you that. We haven't done as much business between the two companies as we would have liked. We thought the carcass deal was the beginning of a good long relationship, and it just didn't turn out that way. And so Frank not being able to make the meetings, I'm not sure what he'll do with his shares. They may hold them. They may sell them. I think they may likely sell them at some point. They're not in any rush. They've got a nice profit in it. So that's the reality of where we're at on that, and simply not worth Frank's time. He's a busy guy with a big company. It's simply not worth his time to come – to be on this Board.

Operator

Our next question comes from Robert Moskow with Credit Suisse. Please go ahead.

<Q - Robert B. Moskow>: Hi. Tim kind of asked my question, but I'll ask a different one. I'm just trying to figure out why the stock's not up more today. And I think it should be up more, and I think it gets to maybe some investor concerns that the margins keep getting better and better, but it's hard to understand the sustainability, as Bo pointed out.

And the volume really isn't growing. Maybe it doesn't have to because there's so much efficiencies still to be accomplished, and so much more of a push towards value-add, but at any point, Larry, do you look at those volume sales and you think maybe a year from now, two years from now that the value paradigm is going to shift internally, and you're going to want to push volume higher? Thanks.

<A - C. Larry Pope, President and Chief Executive Officer>: I'll probably answer that as we already have. We already have had that discussion, and even if the volume declined this quarter, if you would notice it's trending sharply below where we were even in the first quarter and second quarter. So yes, we've already addressed that. The other piece of that is that we are – which is that we are going to put some more marketing behind our brands. We're encouraged, as we pointed out in the press release, with some of the strength of some of our branded items. And we're going to – we already have a focused plan, I guess, is the right way to say that, some of it moving, to increase the consumer marketing around these brands to move this product to more of a pull strategy than an all push strategy.

The short answer to that is yes. We understand we can't save our way to the future. And we can't shrink our way to the future. We understand that very clearly. However, we do have a rationalizing process that needed to occur. And I think we are – we debate every day whether we've reached that point and if we should be on the growing side of the packaged meats, but you take some examples of pork bellies. Pork bellies can be worth more in Korea on an export item than they're worth in the package in the United States.

So we go "where the money is", and I think that trend will t urn. I think Bo made a point which is right on point that we're changing the product mix. We're upgrading the product mix with what we've got out there in the retail case, and that's having an impact on those margins. Those are small volumes. They don't have giant impacts on the volume side of the business, but they have nice impacts on the margins. And so I think that you will see us – as you see the trend slowing down in terms of the negative, I think you'll start to see the positives as you look a little bit further out. So just

hang on.

Operator

And our next question comes from the line of Ann Gurkin with Davenport. Please go ahead.

<Q - Ann H. Gurkin>: Good morning, and congratulations on a terrific quarter.

<A - C. Larry Pope, President and Chief Executive Officer>: Hi, Ann. Thank you.

<Q - Ann H. Gurkin>: Just wanted to spend a few more minutes going through the details behind your statement about you expect to be profitable in hog production in fiscal '11 and beyond. So to me it implies that you all pretty much know your positioning in grain versus pricing margin spread there to make that kind of statement. And then how much is that versus ongoing realization of cost savings?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Ann, I think that if you looked at the future strip for hogs and the future strip for corn about two or three weeks ago, you could have put on profitable spread margins in almost every month that was available. And we find that attractive.

We believe there's upward mobility in terms of potential higher hog prices than what was reflected in the futures market. And we're reacting accordingly, and I think we're going to give you about that much in terms of outlook for going forward.

Operator

And our next question comes from the line of Carla Casella with JPMorgan. Miss Casella, your line is open. We'll go on to Micah Kaplan with B of A. Please go ahead.

<Q - Micah Kaplan>: Good morning, guys. Just real quick on the financial profile. Bo, I know that you said that you guys are getting pretty close to the interest target here. I guess it looks like to me even with an ABL re-pricing that you're still probably a little short. And so I guess first of all would additional bond buybacks and/or tenders still be on the table? And then secondly, once you get to your interest target, are there certain assets out there, especially on the retail side, that you guys would intentionally lever, lever it back up to buy? Thanks.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: You ought to note we have another $78 million worth of maturities in this coming August that we have to pay off, so we will have some additional debt reduction in addition to restructuring of the short-term credit arrangement in order to achieve those goals.

Operator

Our next question...

Keira Lombardo, Director, Investor Relations

We're going to end the call here, and turn it over to Larry for closing remarks, please.

C. Larry Pope, President and Chief Executive Officer

I think it is close to 10:00, folks, and I realize you guys have got busy lives. I agree with you that from my standpoint the stock is way underpriced.

I think we continue to deliver very solid results. I think we have again, and again, and again, and again delivered in the pork group surprisingly good numbers. I think our management team is laser focused on continuing to improve our cost structure, and our competitive position.

I am extremely pleased and optimistic about what I see still coming. Bo makes reference to the fact that the fresh meat margins may be reverting to the mean. We'll see. They continue every day to stay at elevated levels, and the export markets only look to be getting better.

I guess the only thing from a management standpoint we can do is focus on running the business. The balance sheet is the best it's been in probably 20 years. Our liquidity is extremely strong. Our relationship with our customers is absolutely excellent, and our management team sees more opportunity in the future than they have even in the past.

So all I can tell you as an investor, I think for the last two years we've delivered. We've improved your stock price from $5.60 to nearly $23. As I said to you, I look forward to a year from today to reporting to you again on the progress we've made over the next 12 months, in spite of the fact that we're coming off of record fresh meat results, I look forward to talking to you 12 months from now. I believe the opportunities for this business that we already know have nothing to do with fresh meat margins, I think that you're going to be pleased as you hear those results as we go forward.

So we'll manage the risk. We look at the corn markets. We look at the hog markets. We've got some smart people in our trading organization. Dhamu Thamodaran does a terrific job for this company. He's an advisor to many of our customers in terms of when they should place their buys, and they respect it. So he guides us through that treacherous water very, very well. And I'm very pleased with that job.

And from that standpoint, I think that we are managing the risk much better than we have in the past, and we're going to continue to improve this competitive structure, and I think deliver to you very solid results. And hopefully at some point the stock will recognize that this is for real, not some market that just happens to be in our favor.

Thank you very much, and thank you for listening.

Operator

Thank you, ladies and gentlemen. This conference will be available for replay starting today at 11:00 a.m. and will run until March 24, 2011 at midnight. You may access the replay service by dialing 1-800-475-6701 and entering the access code of 192581. Those numbers again are 1-800-475-6701, and entering the access code of 192581.

That does conclude your conference for today. Thank you very much for your participation, and for using the AT&T Executive Teleconference. You may now disconnect.